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Report

Report subject: Internal Audit Strategy 2006-2008

Report to: Audit Committee

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1   Introduction

1.1   The need for a strategy was established in the CIPFA Code of Practice to provide direction on how the service is provided to meet the terms of reference. This is the first Internal Audit Strategy written for Salisbury District Council, although elements have previously been addressed in the Internal Audit Strategic Plan. The aspects to cover within the strategy are:

- Provision of internal audit

- Audit approach to provide assurance for the statement on internal control.

- Resources and skills required.

- High-level allocation between assurance work and fraud related or consultancy work.

1.2   The strategy will be used to form the basis for the audit plan for 2006/7 and to direct the agreement of a joint working protocol with external audit.

2   Provision of Internal Audit

2.1   Internal Audit is provided in-house with a contract to buy in IT audit. A SWOT analysis of this approach is shown below.

Strengths	Weaknesses
Knowledge of organisation Continuity of staffing Availability for help and advice Rapid response Availability of audit expertise for corporate projects	Possible narrow skills base and dependence on individuals Limited career development opportunities for staff
Opportunities	**Threats**
Sharing of expertise Sharing of risk, costs and systems	Resource gaps due to staff leaving

through joint working arrangements	

Where it is possible to have an in-house team that is well qualified and experienced then I believe the in-house provision of service is the best solution for the council. It offers considerable advantages and no significant disadvantages in terms of service. However, it must be recognised that this arrangement is vulnerable to staff turnover.

2.2 The purchase of IT audit is complementary to the in-house team by offering specialist expertise. The recent joint procurement exercise with other Wiltshire councils was seen as a first step for promoting greater cooperation between the district councils.

3 Audit approach to provide assurance

3.1 The objective of internal audit is to provide assurance to those charged with governance on risk management, governance and internal control. The statement on internal control is a major driver for the need for assurance. Professionally internal audit is moving to risk based internal audit, a model which takes into account how mature an organisation's risk management processes are. The following diagram, taken from the CIPFA publication, illustrates this.

Organisation's risk maturity	Approach to risk management	Internal Audit strategic response
Risk Enabled Level 5	Risk management and controls assurance policy embedded into organisational culture and operations.	Use management assessment of risk for audit planning as appropriate.
Risk Managed Level 4	Organisation wide approach to risk management communicated and implemented.	Use management assessment of risk for audit planning as appropriate.
Risk Defined Level 3	Strategy, policies and risk appetite defined.	Incorporate management risk assessment into audit plan but use audit assessment of risk to check comprehensive.
Risk Aware Level 2	Some areas risk aware, probably due to culture, history or staff in post.	Rely on audit assessment of risk.
Risk Naïve Level 1	No formal approach developed	Rely on audit assessment of risk

Source: 'It's a risky business: a practical guide to risk based auditing' CIPFA

3.2 Another influence on the approach to audit is the professional requirements of external audit when they seek to rely on the work of internal audit to support their work. New guidance has now been received from the Audit Commission on its approach to the 2005/6 audit and potential impact on internal audit. These have come about as a result of the implementation of new International Standards on Auditing.

3.3 The current audit strategy is to move towards risk based internal audit, to the level that reflects the council's risk maturity. At the same time key financial audits will incorporate work on which the Audit

Commission can place assurance. This will help to ensure effective use of the total audit resource. The exact implication of the International Standards has not yet been quantified and there are risks that they will result in either additional work for internal audit or additional external audit fees. However it is proposed to freeze the proportion of the plan devoted to these financial audits at the current level (34 per cent). Over time the balance between these audits and other work will be reviewed. It is anticipated that a joint working protocol will be developed between the Audit Commission and internal audit that sets out respective roles, responsibilities and commitments.

4   Resources and skills

4.1   A detailed paper on resources was presented to the last Audit Committee.

4.2   The skills required for delivery of the internal audit service are primarily:

- Auditing knowledge and skills, provided by professional training.

- Knowledge of the organisation, its objectives, systems and processes. This is ensured by being part of the organisation and through experience of auditing it.

- Knowledge of current issues, provided by continuing professional development.

- Communication skills are necessary to effectively plan, undertake and report on audits.

- Judgement – able to assess materiality and find practical solutions.

- Planning and organisation skills for effective working.

4.3   To ensure that the team has appropriate skills, the recruitment and selection process is used for new staff and training and professional development is supported for the team in post.

5   Allocation of audit resources

5.1   Within the audit plan audit days are determined from the resources available less time for leave, training, meetings etc. The section has a relatively small amount of non-audit work, which is also allowed for. In the current audit plan this is budgeted at 11 days per annum. 78 per cent of audit days available are allocated to assurance work and 22 per cent for other work. An analysis of the current plan shows the split in broad categories.

Areas of Audit Work	Percentage of total
Audit and assurance work	78
Help & advice	8
Fraud work	6
Project work – value for money	1
Corporate work	7

5.2   The balance between audit and assurance work and other work has been broadly consistent over the last three years with 77 percent of the strategic plan for 2003/4 and 81 percent for 2004/5 strategic plan being allocated to audit & assurance work.

5.3   Non-assurance work such as the provision of help and advice or fraud investigation is demand led so there is a risk that the planned balance of audit work could be distorted in a single year. In the year to date 74 percent of audit days have been spent on assurance work, reflecting the impact of fraud work.

6   Future Development of the Internal Audit Service

6.1   It is planned to maintain the in-house team, buying in IT audit expertise. The service will have to respond to future changes and challenges, which may change the basis for the current arrangements. In particular the business case for the provision of internal audit as a shared service will be reviewed in conjunction with other councils. Internal and external drivers for change are detailed below.

External factors
Efficiency Agenda
Local government reorganisation
Internal factors
Inability to recruit and retain staff of the required calibre
Calls on resources for non audit work

6.2   The ambition for the service is to provide a professional and effective assurance function, in line with current standards. This will be assessed through professional benchmarking, external audit review and internal feedback. Building effective working relationships with managers, senior managers and Audit Committee members will be a key part of delivering effectiveness and will be assessed through customer satisfaction surveys. Resource inputs will be monitored through benchmarking.

7   Recommendation

7.1   The Audit Committee is asked to approve the strategy.

Implications:

- **Financial:** All audit activity outlined in the report can be delivered within the approved budget.
- **Legal:** None
- **Human Rights:** None
- **Personnel:** Any potential staff implications are contained within the report.
- **Community Safety:** None
- **Environmental Impact:** None
- **Council's Core Values**: Excellent service, open learning council and a willing partner.