

INTERNAL AUDIT STRATEGY 2014/15

Cabinet Member Cllr Neal Davey
Responsible Officer Audit Team Leader

Reason for Report: To present the Committee with the Internal Audit Strategy for the 2014/15 financial year.

RECOMMENDATION(S): The Committee approves the Internal Audit Strategy for 2014/15 (Appendix A).

Relationship to Corporate & Improvement Plan: A professional, independent and objective internal audit service is one of the key elements of good governance.

Financial Implications: N/A

Legal Implications: N/A

Risk Assessment: Potential failure to comply with the Public Sector Internal Audit Standards (PSIAS) and Internal Audit Charter.

1.0 Introduction

1.1 In 2013 CIPFA adopted the PSIAS which encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. These are:

- Definition of Internal Auditing
- Code of Ethics and
- International standards for the Professional Practice of Internal Auditing

1.2 The PSIAS replaced the *Code of Practice for Internal Audit in Local Government in the United Kingdom*. In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011 from 1 April 2013.

1.3 While an Internal Audit Strategy is not mandatory it provides a clear direction for internal audit activity and creates a link between the Internal Audit Charter and the Strategic Audit Plan. It is the intention to review the Internal Audit Strategy annually.

1.4 The Internal Audit Charter was approved at the Audit Committee meeting on 19 March 2013; this does not have to be reviewed annually.

2.0 Internal Audit Strategy 2014/15

- 2.1 The Internal Audit Strategy is the statement of how internal audit services will be delivered within Mid Devon District Council during the 2014/15 financial year to provide assurance to relevant stakeholders that the systems in place are working effectively and efficiently, enabling the Council to achieve its vision and priorities.
- 2.2 It describes the measures put in place to ensure compliance with the PSIAS and Internal Audit Charter.
- 2.3 There will be a verbal update at the meeting on 2 points which need to be confirmed in sections 9 and 10.

3.0 Conclusion

- 3.1 The Committee approves the Internal Audit Strategy for 2014/15 (Appendix A) as amended by the update at 2.3.

Contact for more Information: Catherine Yandle, Audit Team Leader

Circulation of the Report: Cllr Neal Davey and Management Team

List of Background Papers: None

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1.0 INTRODUCTION

- 1.1 This Internal Audit Strategy is the statement of how Internal Audit services will be delivered and developed within Mid Devon District Council during the 2014/15 financial year to provide assurance to relevant stakeholders that the systems in place are working effectively and efficiently, enabling the Council to achieve its vision and priorities. It describes the measures in place to ensure compliance with the PSiAs and Internal Audit Charter.
- 1.2 This strategy will be updated and approved on an annual basis by the Audit Committee in conjunction with the Strategic Audit Plan.

2.0 DEFINITION OF INTERNAL AUDIT

- 2.1 *“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

3.0 PROFESSIONALISM

- 3.1 The Audit Team Leader is responsible for ensuring that job descriptions reflect current roles and responsibilities and that person specifications define the required level of qualification, competency, skill, experience and personal attributes for each role within the Audit Team.
- 3.2 All Internal Audit staff identify training needs as part of the appraisal and development process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their professional development. As Internal Audit examines the whole of the control environment the aim is to ensure that the skills mix within the service reflects this wider responsibility. This is a continual process.
- 3.3 The Audit Team Leader is a member of the Institute of Chartered Accountants in England and Wales. Both Auditors are members of the Association of Accounting Technicians.

4.0 AUTHORITY

- 4.1 As per the Financial Rules, The Audit Team Leader, or her representative from Internal Audit, shall, with full regard to the Data Protection and Human Rights requirements, have authority to:
- Have access to appropriate records, premises and personnel relevant to any function under review

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- Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data
- Receive any information and explanation considered necessary concerning any matter under consideration
- Require any officer or other employee or agent of the council to produce cash, stores or any other property under his/her control
- Require a timely response to any findings and recommendations contained in audit reports

4.2 Internal Auditors must safeguard the information they receive in carrying out their duties. Any information gained in the course of audit work should remain confidential and there must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so. Any inappropriate disclosure of information by Internal Auditors could be a disciplinary offence.

4.3 Internal Audit operates a 'clear desk' policy to ensure that confidential information is held securely. Wherever possible, documents are held electronically, on the Audit drive, to which only Internal Audit has access.

5.0 ORGANISATION

5.1 The Internal Audit Team Leader reports to the Audit Committee and Management Team in her own name.

5.2 The Audit Team Leader has direct access to the Head of Corporate Governance (Monitoring Officer), the Chief Executive, the Section 151 Officer, the Leader/Deputy Leader of the Council and the Chairman of the Audit Committee.

6.0 INDEPENDENCE AND OBJECTIVITY

6.1 This is largely a matter of attitude and independence of thought however there are a number of safeguards in place to maintain the Internal Audit Team's independence and objectivity, which include:

- All Internal Auditors complete an annual declaration of independence which highlights any relationships with employees or stakeholders. The Audit Team Leader then factors this information into the Audit Work Plan to ensure that any potential conflicts are avoided.
- Where an Auditor has worked in another department within the Council, this is also factored in and the Auditor will not audit that area for a minimum of two years from the date of commencement in Internal Audit.

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- The Audits within the Audit Work Plan are alternated where possible (within the constraints of the above) to ensure that Auditors are not continually working on the same assignments. This ensures that the risk of over-familiarity and complacency that could influence objectivity is reduced
- Where the Audit Team Leader has been the main auditor her work is reviewed by the Head of Communities & Governance (HOCG).
- Where an audit relates to an area under the remit of the HOCG the Audit Team Leader reports direct to the Chief Executive.

7.0 RESPONSIBILITY

- 7.1 Management Team is responsible for establishing the systems and activities under which the Council operates. This should include the internal control environment, risk management, governance, securing value for money, preventing and detecting fraud or other losses and compliance with legislation and council policy.
- 7.2 Internal Auditors will be alert in their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have been occurring. However audit procedures alone, even when performed with due professional care, cannot guarantee that all fraud or corruption will be detected.
- 7.3 The Audit Team Leader is a named contact point in the Council's 'Anti-fraud & Corruption', 'Anti-money Laundering' and 'Whistleblowing' policies and should be informed of all suspected or detected fraud, corruption or impropriety. She will consider any implications on the adequacy and effectiveness of the relevant controls for her overall opinion on the internal control environment.
- 7.4 The areas of risk and performance management are picked up in every audit. While Internal Audit has taken on the administration of SPAR they are not responsible for compiling or entering information on SPAR.

8.0 INTERNAL AUDIT PLAN

- 8.1 The Audit Team Leader should prepare a risk based audit plan taking account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes.
- 8.2 However if an organisation is not sufficiently risk mature Internal Audit cannot prepare a risk based audit plan in the true sense as the risk register cannot be relied upon to have identified all key risks. MDDC is on the right track but service area's Operational and Strategic risks are noticeably absent from

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SPAR. This is the area which now needs to be addressed. MDDC's current risk maturity is at the "defined" stage which is approximately midway on the scale from "naïve" to "enabled".

- 8.3 As a result the Audit Team Leader has to take an alternative approach and identify all systems operating within MDDC in order to establish the full size of the audit area potentially to be covered. This forms the Audit Universe.
- 8.4 All areas identified in the audit universe are subject to an audit needs risk assessment to identify their risk level and whether or not they are to be included in the Strategic Audit Plan which is a 4 year rolling plan revised annually to take into account the new priorities and risks of the Council.

The Audit Team Leader keeps up-to-date with such issues and risks from:

- Numerous corporate documents and through discussion with members of Management Team.
 - Alerts about new legislation and government publications
 - Access to meeting agendas and minutes and regular update meetings with the Head of Communities & Governance
 - Attendance at the Devon Audit Group Meetings
 - Local, National and professional publications
 - Professional reference materials, forums and CPD
- 8.5 The overarching objective of the Strategic Audit Plan is to provide a comprehensive programme of audits, which allows assurance to be obtained from each audit as well as from a collective whole. It is not possible to cover all aspects of the internal control system in detail every year, essentially because there are not sufficient audit resources to permit this blanket coverage, but to ensure adequate coverage of the main areas to allow a general opinion to be obtained.
- 8.6 This year the audit plan for 2014/15 is reduced due to the maternity leave of one auditor as was reported to the Audit Committee in January. Core audits and key systems audits will still be covered although flexibility and the ability to take on consultancy work will be reduced.
- 8.7 The position will be kept under review throughout the year. If necessary external resource will be bought in although there are other members of staff with audit experience at MDDC who may be called upon if necessary.

9.0 REPORTING AND MONITORING

- 9.1 Within 15 working days of completing the audit fieldwork, a draft report is issued to the Service Manager to check for factual accuracy prior to the exit

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meeting. The exit meeting should be held within 2 weeks for the report to be finalised with the Manager and any other relevant staff.

- 9.2 Once the Audit Report has been finalised with the relevant Manager the report will then be circulated to their Head of Service and the Chief Executive for any further comments.
- 9.3 Once this stage is complete the final report is circulated to the S151 Officer, the Members of the Audit Committee, the Finance Cabinet Member and Grant Thornton.
- 9.4 Audit Opinion

Each Audit report will give an opinion as to the adequacy of the control environment, which will feed into the Outturn Audit Report and the Annual Governance Statement. The opinion is a statement of the Auditor's view and will be one of the following categories:

Well controlled – strong controls are in place and there is a minimal risk of serious loss or error

Adequately controlled – controls are in place but improvements would be beneficial. There is some risk of loss, fraud, impropriety or damage to reputation.

Poorly controlled – urgent systems revision is required to improve the level of control. There is a high risk of loss, fraud, impropriety or damage to reputation.

- 9.5 Report recommendations

When reports are issued, Service Managers are informed of areas where, in the opinion of Internal Audit, management action is required. To assist management, suggested solutions are made in the form of an Action Plan. Recommendations included fall into one of the following three categories:

High Priority – This applies to audit findings, which are considered to relate to weaknesses in a fundamental control area. This may result in the breakdown of part/whole of the service and there could be the potential for fraud or irregularity. Key business risks remain unidentified and/or unmanaged, i.e. control systems do not exist or do not operate effectively. These recommendations need to be addressed within 3 months.

Medium Priority– This applies to weaknesses in the control systems, which are not considered serious but may have some impact on the service. Not all

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key risks may have been identified and/or managed effectively. These recommendations need to be addressed within 6 months.

Low Priority – This applies in respect of findings, which, although relatively minor and which may have little impact on the service, provide an opportunity to improve the control framework to ensure full compliance with expected controls. All key risks should have been identified, planned or prioritised. These recommendations will need to be addressed within 1 year.

- 9.6 Following the issue of the final report audit recommendations are monitored to ensure that they are implemented when appropriate in accordance with the agreed target dates. This is being done via SPAR.
- 9.7 The Audit Committee has the opportunity to discuss any items arising from the audit reports as a standing agenda item (Part 2) at each Audit Committee meeting.
- 9.8 Progress against the annual Audit Work Plan is also a standing item on the agenda. This includes the recommendations monitoring reports from SPAR.
- 9.9 The Audit Team Leader produces an the Audit Outturn report in May/June each year outlining the work completed by Internal Audit over the financial year and giving her overall opinion on the control environment.

10.0 PERIODIC ASSESSMENT

- 10.1 The Audit Team Leader provides each auditor with support and feedback during the audit process and through file reviews at the end of each audit.
- 10.2 A self-assessment is completed at the end of each year in accordance with guidance and paperwork from CIPFA by the HOCG.
- 10.3 Performance Indicators are monitored and reported on SPAR.
- 10.4 For the external assessment requirement the Audit Team Leader has put in place peer review arrangements with other members of the Devon Audit Group (a networking group) to carry out the assessments required by the PSiAs.