



# **INTERNAL AUDIT STRATEGY**

2013-14

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## **1. Introduction**

The four East Kent authorities Canterbury City Council (CCC), Dover District Council (DDC), Shepway District Council (SDC), and Thanet District Council (TDC) formed the East Kent Audit Partnership (EKAP) in order to deliver a professional, cost effective, efficient, internal audit function. A key aim for the EKAP is to build a resilient service that provides opportunities to port best practice between the four sites, acting as a catalyst for change and improvement to service delivery as well as providing assurance on the governance arrangements in place.

The Internal Audit Strategy is a high level statement of how the EKAP will provide the internal audit service and it is updated annually.

## **2. Governance Arrangements and Key Relationships**

The four East Kent districts have entered into a collaboration agreement for the provision of one shared Internal Audit Service. The Statutory Officer responsible for ensuring an effective internal audit service is the s.151 Officer for each council. Together under the agreement, the four s.151 Officers form the "Client Officer Group" which is the key governance reporting line for the EKAP. The Client Officer Group meets collectively twice yearly with the Head of Audit Partnership to consider the strategic direction and development of the partnership and any performance matters.

In order to maximise resources between External Audit and Internal Audit, the Head of Audit Partnership and External Audit Managers try to take into account where their resources can maximise coverage, avoid duplication of effort and ensure the External Auditors can place reliance on Internal Audit work, where they can.

The Head of Audit Partnership has a line reporting relationship directly to the Director of Finance. Other key relationships for the EKAP are defined in the approved Audit Charter.

## **3. Internal Audit Strategy and Planning Approach 2013-14**

### **3.1 Internal Audit Objectives**

The EKAP seeks to deliver effective outcomes by;

- Understanding the four partner councils, their needs and objectives,
- Understanding its position with respect to other sources of assurance and to plan our work accordingly,
- Embracing change and working with the four councils to ensure our work supports management,
- Adding value and assisting the partners in achieving their objectives,
- Being forward looking, knowing where the partners wish to be and being aware of the local and national agenda, and their impact,
- Being innovative and challenging,
- Helping to shape the ethics and standards of the four councils, and
- Sharing best practice and assisting with the joint working agenda.

### **3.2 Audit Planning Methodology and Scope of Coverage**

The Audit Strategy focuses internal audit effort on the risks of the four partner's objectives and priorities. It also seeks to add value to the partners by reviewing areas that most support management in meeting their objectives. The Strategic Audit Plan is designed to implement the Audit Strategy and sets out a broad rolling programme of work over a three to five year period. The strategic plan is revised in January annually, to take into account the new priorities and risks of each authority.

The Head of Audit Partnership works together with the Deputy Heads of Audit to consult relevant service managers and heads of service at each site to assist in formulating the strategic audit plans. Each council's corporate aims and objectives, individual service plans, risk registers, time spent on previous audits, any problems encountered, and level and skill of service staff involved are taken into account and information is entered into the audit software. All areas as identified in the strategic plan are then subject to a risk assessment to identify their risk level and whether or not they are to be included in the proposed annual plan. The audit plans are generated from the audit software based on the risk scores of each area of activity identified through the consultation process.

The resultant initial audit plan derived from the above process is taken forward for further consultation with the individual authorities and is ultimately approved at the relevant March audit committee.

The annual audit plans for the current year, are subject to ongoing progress review with the key client officer for each authority and formal quarterly update reports to Members via the relevant audit committee. An annual report summarising performance for the authority and for the EKAP against the agreed audit plan and local performance indicators is published annually in June.

The EKAP is committed to continuous improvement and has standardised all the working practices across the partnership. The Internal Audit team has access to a common Audit Manual to ensure that the same processes are operational across all the partner sites. The Audit Manual is subject to (at least) annual review. The EKAP seeks to ensure continuous improvement by obtaining regular feedback on the service and making comparisons to best practice and the CIPFA Code, with particular emphasis on maximising performance levels.

### 3.3 Strategic Audit Plans

The overall coverage will need to encompass the whole range of risks which the EKAP has identified as being principal to the achievement of each partner's objectives and priorities. The Strategic Plan is therefore based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a three-year cycle of audits to provide assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations. This strategic plan also lists a small number of areas of the organisation's activities that will not be covered within the three-year cycle based upon the current level of audit resources, and for these lower risk areas of business a four or five-year rolling cycle is proposed.

Reviews will assess the risks, plans, systems, procedures and controls with a view to provide an opinion on the control environment and make recommendations to management for any improvement.

The relevant draft strategic audit plan for 2013-16 is attached as ANNEX C.

### 3.4 Annual Audit Plan 2013-14

To comply with the CiPFA Code of Practice for Internal Audit 2006, the agreed audit plan should cover a fixed period of no more than 1 year. The purpose of showing an indicative 2014-15 and 2015-16 plan within this strategy is to provide assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle.

The proposed Annual Audit Plan for 2013-14 has been prepared in consultation with the individual Directors and the Council's Statutory S151 Officer. The plan is also designed to meet the requirements expected by the Audit Commission for ensuring key controls are in place for its fundamental systems. The relevant audit committee is also part of the consultation process, and its views on the plan of work for 2013/14 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require.

The relevant draft annual audit plan for 2013-14 is attached as ANNEX 3.

### 3.5 Audit Plan Resource Requirements

Each authority within the partnership requires a different number of audit days to resource their agreed annual audit plan. The emphasis within each of the authority's plan is assurance related. The Internal Audit function will contribute to each of the partner's overall governance & financial assurance processes. This will be achieved through the following:

- Issuing a formal report following each review, including giving an assurance level to each review.
- Analysis of assurance levels, ensuring progress is made at the follow up stage where possible.
- Quarterly reporting to Audit Committees, including an overall annual report at the year-end.
- Liaison with the External Auditors throughout the year.
- Liaison with appropriate officers for each authority to identify specific risk to them, and focusing audit work appropriately.
- Supporting Partners' governance, performance and risk strategies by collecting evidence during reviews to show that their officers consider these aspects as an integral part of their "day job".
- Working with relevant staff to ensure that the systems documentation required to assist External Audit give assurance over the operation of key controls over the material systems, is reviewed and maintained, with tests and any changes fully documented.
- Contributing to and evidencing the Annual Governance Statement from the audit work performed throughout the year in accordance with each authority's processes.

### 3.6 Staff Resources

Dover District Council is the host authority for the shared internal audit service therefore it employs or contracts with all the staff engaged to deliver the service. The current team is made up of nine full or part time staff all providing a range of skills and abilities within the Internal Audit profession. Those staff accredited to a professional body are required to record their Continued Professional Development (CPD) in order to evidence that they maintain their skills and keep up to date. Additionally, the staff are bound by the professional standards and code of ethics for their professional body, either CIPFA, the ACCA or the IIA.

A mix of permanent staff and external contractors will provide the resources required to fill the required number of chargeable audit days. Internal Audit staff will be appropriately qualified and have suitable, relevant experience. Appropriate professional qualifications are ACCA, IIA or AAT. The DDC appraisal scheme including an assessment of personal development and training needs will be utilised to identify technical, professional, interpersonal and organisational competencies. Having assessed current skills a personal development plan will be agreed for all EKAP staff intended to fill any skill gaps.

The Dover District Council's Personal Performance Review process will be the key driver to identifying any skill gaps, and training, where appropriate, will be investigated at an individual level, as well as across the team, and on a Kent wide basis (through collaborative arrangements at Kent Audit Group). In the short-term, the specialised computer audit skills gap may be addressed through the engagement of contractors for specialist work, and where possible, a team member will shadow the "expert" to gain additional skills.

## 4. Additional Services

### 4.1 Special Investigations and Fraud Related Work

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. The prevention and detection of fraud and corruption is ultimately the responsibility of management within the four partner authorities. However, EKAP is aware of its role in this area and will be alert to the risk of fraud and corruption when undertaking its work. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or the discovery of any areas where such risks exist.

Consequently, a provision for any additional time in the event of fraud related work being required has not been included in any of the annual audit plans. Any special investigations which the EKAP is requested to undertake may be accommodated from re-allocating time within the relevant partner's own plan, or through buying in additional resource to either investigate the case, or to back-fill whilst partnership staff carry out the investigation. The provision of resources decision will be made on a case-by-case basis in conjunction with the relevant partner's s.151 Officer and other management as necessary.

An added advantage due to the flexibility of the arrangements within the EKAP means that we are able to use auditors who are not known at an authority to complete special investigations as this strengthens independence.

## **4.2 Ad Hoc / Consultancy Work**

A contingency has not been included in any of the partners' plans. Therefore if work has not been included in the plan from the outset, a variation will need to be agreed for any subsequently requested work, to re-allocate time within the relevant partner's own plan, or through buying in additional resource, or to back-fill whilst partnership staff carry out the assignment. The decision will be made in conjunction with the relevant partner's s.151 Officer and other management as necessary

## **4.3 Value for Money (VFM) Reviews**

VFM relates to internal audit work that assesses the economy, efficiency and effectiveness of an activity. The work of EKAP is planned to take account of VFM generally, indeed this is supported by the objective to port best practice between sites where appropriate. Also, some agreed audit plans have a specific provision for VFM reviews (or a review of VFM arrangements). Where possible VFM reviews will be run concurrently with other sites within East Kent where this is deemed to be most beneficial to participating authorities. The EKAP staff are alert to the importance of VFM in their work, and to report to management any examples of actual or possible poor VFM that they encounter in the course of their duties.

## **5. Independence**

The EKAP will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements. Where possible the EKAP staff will have no direct operational responsibilities. Additionally, new staff joining EKAP will not carry out an audit for at least two years on an area they previously had operational responsibility for. The EKAP staff maintain their declarations of interest using the Dover District Council corporate system.

## **6. Quality assurance**

The quality assurance arrangements for the EKAP include all files being subject to review by either the Audit Manager for the site and/or by the Head of Audit Partnership (especially if the review has 'no' or 'limited' assurance). This review ensures that the work undertaken complies with the standards defined in the CIPFA Code of Practice. In addition to the ongoing review of the quality of individual working papers and reports and performance against the balanced scorecard of performance indicators; an annual assessment of the effectiveness of Internal Audit is undertaken separately by each of the partner authorities.

## **7. Review of the Internal Audit Strategy**

This strategy will be reviewed annually, with the next review due in January 2014.

### **References:**

Audit Charter

Audit Manual

CIPFA Code of Practice for Internal Audit 2006