



**CENTRAL BEDFORDSHIRE COUNCIL**

**INTERNAL AUDIT STRATEGY**

**2012 - 2013**

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## **1. Statutory Role**

- 1.1 The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”.
- 1.2 Regulation 6 of the Accounts and Audit Regulations 2011 more specifically requires that:

“A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices”.
- 1.3 The Council recognises that all officers of internal audit shall, in relation to the activities of the Council and as required by the Council’s Financial Regulations
  - Have access to all Council properties
  - Be supplied with any documentation, records or explanations of transactions requested by them.

## **2. Strategic Aims and Objectives**

- 2.1 Internal Audit supports the Council in its vision and strategic priorities, which sets the Council’s focus over the coming years.
- 2.2 Internal Audit strives to provide a high quality service that gives management reasonable assurance on the effectiveness of the Council’s internal control environment and acts as an agent for change by making recommendations for continual improvement. The service aims to be flexible, pragmatic and deliver service in collaboration with management to suit organisational needs. Through a risk based approach, the service will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk. Within the team, it is intended to provide a work environment that is both supportive and challenging to facilitate the development and retention of high calibre staff.
- 2.3 The Terms of Reference of Internal Audit are summarised within the Code of Financial Governance (Section 5.4).

## **3. Reporting Lines and Communication with Members**

- 3.1 The Chief Finance Officer is the lead officer responsible to the Audit Committee.
- 3.2 The Head of Internal Audit and Risk reports on an administrative basis directly to the Chief Finance Officer (Section 151 Officer).
- 3.3 The Head of Internal Audit and Risk regularly reports to the Audit Committee and provides an annual report. The report includes an assessment on the standard of internal control within the Council and contributes to the production of the Annual Governance Statement.
- 3.4 The Audit Committee is responsible for agreeing and monitoring the Internal Audit plan, as stated in its terms of reference. The Audit Committee receives progress reports on internal audit and risk management activities. Where there is a need for changes to the

audit plan, revisions will be submitted to the Chief Finance Officer for approval. These will also be reported to the Audit Committee.

- 3.5 The Head of Internal Audit and Risk has access to Members, the Chief Executive and Directors.

#### **4. Internal Audit Standards**

- 4.1 There is a statutory requirement for Internal Audit to work in accordance with 'proper audit practices'. These 'proper audit practices' are in effect 'the Standards' for local authority internal audit. The guidance accompanying the Accounts and Audit Regulations 2003 makes it clear that 'the Standards' are those specified in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 4.2 The Internal Audit unit will adopt these standards in its operations. The refreshed audit manual and charter reflect these standards. The Head of Internal Audit and Risk will review and update, on an annual basis, the internal audit manual, charter and strategy. The Chief Finance Officer will approve these and any changes during the year. Significant changes will be brought to the attention of the Audit Committee.

#### **5. Internal Audit Scope**

- 5.1 The scope of Internal Audit's work is determined by a risk based audit universe maintained by Internal Audit. Account is also taken of the Council's risk management processes in terms of identifying significant risks to the achievement of the Council's objectives.
- 5.2 To form the risk based audit universe, an audit needs assessment is completed which will prioritise all of the audit entities. This is carried out by completing a risk assessment for each entity to deliver the prioritisation. The risk assessments contain the following weighted measures:

##### Inherent Risk

- Statutory nature of the service
- Contribution to the achievement of Council Objectives
- Gross income and expenditure
- Critical data / data protection
- Assets

##### Control Risk

- System and staff stability
- Complexity of Systems
- Reporting Structure
- Existence of Formal Management Control / Operating Procedures
- Fraud Susceptibility
- System Continuity
- Sensitivity
- Partnership Working / Service Level Agreements

The Head of Internal Audit and Risk then agrees a three year internal audit plan based on these risk priorities and available resources with the Chief Finance Officer and senior management and presents it to the Audit Committee for approval.

5.3 The overall Strategy of Internal Audit is:

“To deliver a risk-based audit plan in a professional, independent manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to **improve** it, that are proportionate and demonstrably add value.”

When preparing the audit plan, the following list represents the classification within which audits are considered:

- Audits in progress from previous year
- Key Controls Assurance Work
- Follow-up of “Unsatisfactory” audits or audits where ongoing risks have been identified
- Audits to mitigate the key control weaknesses identified in the risk registers
- Audits drawn from the Audit Universe based upon risk rankings
- New Developments
- Unplanned work (contingency)

5.4 Internal Audit work will focus on the following key areas:

- Reviews that contribute towards the mitigation of the strategic risks
- Managed audits (those reviews on key systems) that we must undertake to provide assurance to the Council (Members) and the S151 Officer that key systems controls are working well and can be relied upon to provide robust and accurate information.
- Systems reviews of the various service areas and processes (including governance arrangements)
- Reviews of the key contracts and partnership arrangements to ensure compliance to the Councils Financial Regulations and Contract Procedures
- Information Communication and Technology reviews across the whole Council
- Special Investigations (including fraud work) to ensure that the Council’s anti-fraud and corruption policies are enforced, and the prevention, detection, and investigation of fraud is proactive
- Follow-up work that ensures implementation of the internal audit and external agencies recommendations
- Consultancy work that utilises Auditor’s skills in providing advice to various officers and projects within the Council without necessarily undertaking an audit and/or issuing a formal report, and without compromising their independence

5.5 Audit work is not just limited to implementing the audit plan. Internal Audit staff are actively involved in other areas supporting projects, using their skills to provide valuable advice to services, and delivering training.

**6. Independence and Accountability**

- 6.1 Internal Audit will remain independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.
- 6.2 The Head of Internal Audit and Risk has direct access and freedom to report in her/his own name and without fear or favour to all officers and members, and particularly to those charged with governance. Accountability for the response to the advice and recommendation of Internal Audit lies with management to either accept and implement the advice or formally reject it. Reviews will be assigned to Auditors and rotated within the various Audit Managers, in order to ensure independence in their reviews, and maximisation of skills.

**7. The Annual Governance Statement (AGS)**

- 7.1 The Accounts and Audit Regulations (Amendments) (England) 2006 (Reg. 4) requires from 2007/2008 the presentation of an Annual Governance Statement (AGS). In June 2007, CIPFA in association with SOLACE and with the support from key local government organisations from across the UK published a document called "Delivering Good Governance in Local Government Framework". The document provides guidance on the preparation of the AGS, and Internal Audit has an important role in that process.
- 7.2 In order to support the Council in its vision and to support the preparation of the AGS, Internal Audit's roles include reviewing and commenting on the whole corporate governance arrangements of the Council, and on the specific areas of the effectiveness of internal audit and internal controls. The results of Internal Audit's reviews of any of these areas will form part of the Annual Governance Statement, alongside other assurance sources.

**8. Internal Audit's link with Risk Management**

- 8.1 Internal Audit and Risk are responsible for the co-ordination of corporate risk management within CBC. This includes assisting services in risk management and championing risk management at strategic and operational levels.
- 8.2 Internal Audit and Risk works with the Risk Coordinators in service areas to ensure a consistent approach to risk management is adopted.
- 8.3 Ensuring strong internal controls and an effective risk management strategy remains the responsibility of senior management.

**9. Fraud and Corruption**

- 9.1 Audit procedures alone, even when performed with due professional care, cannot guarantee the detection of fraud or corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. The Internal Audit unit will include Auditors with fraud investigation skills, and will continue to actively participate in the National Fraud Initiative (NFI). Management may request internal audit to undertake fraud and special investigations.
- 9.2 In accordance with the Council's Anti-Fraud and Corruption strategy, members, officers, and staff must report any allegations of fraud to Internal Audit or other appropriate officer, such as the Chief Executive, Chief Finance officer, or Monitoring Officer.

9.3 Internal Audit is proactively raising awareness on anti-fraud matters. The unit is tasked with ensuring that appropriate counter fraud and corruption actions are taken in line with CIPFA’s 2006 publication on “Managing the risk of fraud”.

**10. Reporting & Assurance Statement**

10.1 For every internal audit assignment, the Auditor will prepare a written report. The Head of Internal Audit and Risk will review the reports before distribution to the appropriate responsible officer.

10.2 Reports will include an ‘opinion’ on the adequacy of controls in the audited area. There are four opinions in use.

<u>Opinion</u>	<u>Level of Assurance</u>	<u>Implications on systems of internal control</u>
Full Assurance	High	<ul style="list-style-type: none"> <li>• Good controls</li> <li>• Low risk of not meeting objectives</li> <li>• Low risk of fraud, negligence, loss, damage to reputation</li> </ul>
Adequate Assurance	Medium	<ul style="list-style-type: none"> <li>• Adequate controls</li> <li>• Medium/Low risk of not meeting objectives</li> <li>• Medium/Low risk of fraud, negligence, loss, damage to reputation</li> </ul>
Limited Assurance	Medium/Low	<ul style="list-style-type: none"> <li>• Limited controls</li> <li>• Medium risk of not meeting objectives</li> <li>• Medium risk of fraud, negligence, loss, damage to reputation</li> </ul>
No Assurance	Low	<ul style="list-style-type: none"> <li>• Inadequate controls</li> <li>• High risk of not meeting objectives</li> <li>• High risk of fraud, negligence, loss, damage to reputation</li> </ul>

The ‘opinion’ will impact upon the circulation of the report and what, if any follow-up work is necessary.

10.3 Management’s response will show actions, responsible officers and milestones in relation to each recommendation. Managers must state reasons for not accepting internal audit recommendations. The Head of Internal Audit and Risk is responsible for assessing whether the managers response is adequate. Internal Audit will monitor the implementation of the recommendations and will report progress to senior management and the Audit Committee.

**11. Quality Assurance & Performance Management**

11.1 The audit manual establishes a robust internal review process that addresses the following:

- (a) the quality of audit work
  - (b) the quality of supervision
  - (c) compliance with CIPFA standards
  - (d) compliance with the local audit manual
  - (e) key performance indicators.
- 11.2 The Internal Audit charter contains a set of key performance indicators that will aid in monitoring internal audits performance. The realistic targets will be set and reviewed on an annual basis. The Head of Internal Audit and Risk will monitor the targets on a regular basis and then report to the Chief Finance Officer and frequently to the Audit Committee.

## **12. Internal Audit Resources**

- 12.1 Internal Audit will be appropriately staffed in terms of numbers, qualifications and experience, having regard to its objectives and to the standards within which it is required to operate.
- 12.2 The Head of Internal Audit and Risk is responsible for ensuring that the resources of the Internal Audit section are sufficient to meet its responsibilities and achieve its objectives. They will also ensure that the appropriate mix of qualifications, experience and audit skills exist within the unit
- 12.3 If a situation arose whereby internal audit resources were insufficient, the Head of Internal Audit will discuss this with the Chief Finance Officer.
- 12.4 Internal Auditors will maintain their professional competence through an appropriate ongoing development programme. Auditors will not only be of a suitable quality but also will maintain their independence.
- 12.5 It may be necessary from time to time to buy-in either agency staff or sub-contractors, of a suitable quality.

## **13. Protocols & Relationship with other review bodies and partners**

- 13.1 To ensure a professional working relationship with managers, partners and stakeholders, Internal Audit has adopted a charter with the Chief Finance Officer. The charter has been approved by the Audit Committee, following consultation with senior management. In addition to detailing how Internal Audit will be working with Auditees (CBC, Partners & Stakeholders), the charter contains key performance indicators internal audit will be expected to meet.
- 13.2 In addition to the charter with the Chief Finance Officer, Internal Audit has agreed a protocol with the Audit Commission to support the managed audit obligations.
- 13.3 The Head of Internal Audit and Risk is aware of the existence of all key partnerships, controlled and associated companies and other similar arrangements, for audit planning purposes, as this has implications for the risks faced by the authority.
- 13.4 The Head of Internal Audit and Risk must review the processes that are in place to ensure that the governance arrangements of partnerships are sound and provide for a clear definition of responsibilities, and must be satisfied that clear arrangements have been established to determine, rights of access to the staff, systems and information of the governing body of partnerships.



**14. National Networks**

14.1 In looking to ensure that Internal Audit operates to high standards and ensures currency of knowledge regarding national issues, the Head of Internal Audit and Risk and other senior officers regularly liaise with their relevant peers in neighbouring Councils.

These networks currently include:

- CCAN County Chief Auditors Network
- MCCIAG Midland Counties Chief Internal Auditors Group
- MCCAPG Midland Counties Computer Audit Practitioners Group
- CIPFA - BGF Better Governance Forum (Chartered Institute of Public Finance and Accountancy)
- CIPFA Counter Fraud Advisory Network

**15. Related Documents**

15.1 The other related documents that should be read in conjunction with this strategy are as follows:

- Financial Code of Governance which forms part of the Financial Regulations for Central Bedfordshire Council
- Anti-Fraud and Corruption Strategy
- Confidential Reporting Policy (otherwise known as 'the whistleblowing policy')
- CBC Internal Audit Charter
- CBC Internal Audit Manual
- Audit Commission / Internal Audit Protocol
- Audit protocol between Bedford Borough Council and Central Bedfordshire Council

**16. Outcomes**

16.1 Following the annual review and continuous implementation of this strategy, and commitment from managers in implementing audit recommendations, the Council should see the following:

- Improved secured systems
- Optimum protection of public funds
- Good value for money
- Transparent and effective identification and management of risks
- Continued service improvement