



# Internal Audit Strategy 2017/20

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## 1. INTRODUCTION

This strategy covers the approach to be undertaken by the Internal Audit Service for the period 2017- 2020 and defines how the Internal Audit service will be delivered. It lies side by side with the Internal Audit Charter and links to organisational objectives and priorities.

The Council's Internal Audit service is provided by the Internal Audit Unit located within Financial Services.

Internal Audit's work will be performed in accordance with the Public Sector Internal Audit Standards 2013 (P.S.I.A.S.) which defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

The plan has been prepared in accordance with P.S.I.A.S. and C.I.P.F.A professional standards, and is based on a formal Audit Needs Assessment (ANA).

The ANA process involved determining, in conjunction with the Council's Senior Management, relative risk and significance levels and the frequency with which the organisation's systems should be audited, together with the resources required.

For information, the following appendices to this document have been provided.

- **Appendix A** lists the risk factors and calculations for each auditable area
- **Appendix B** lists all auditable areas in decreasing order of audit significance.
- **Appendix C** details the proposed allocation of days by assignment, over the three-year plan period (Strategic Audit Plan).
- **Appendix D** sets out the policy on determining the frequency and depth of audits.

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## **2. PRINCIPLES**

Internal Audit's primary role is to provide the Management Team and Councillors with independent assurance on the adequacy and effectiveness of the internal controls within the organisation's financial and operational systems.

Whilst maintaining independence from management (in order to remain impartial when making judgements and recommendations) it is important to recognise that Internal Audit is also a tool for management. As such, the relationship with management must be to provide support and assistance, with the aim of further improving the operations and achievements of the Council.

In accordance with best practice, system based audit techniques will normally be adopted. Using this approach, audit attention will focus on assessing and categorising the key risks in each system, and then identifying and evaluating the controls which management have or should have in place to mitigate those risks.

Audit assignments have been planned on a cyclical basis, with the frequency and depth of each audit determined according to the significance band into which each system falls.

In carrying out the ANA, auditable areas (**Appendix A**), within the scope of Internal Audit have been identified with the assistance of management and analysed into the organisations current structure. Six key risk factors and four key consequence factors were selected and the factors and weightings were agreed with the Financial Services Manager.

Consultations have been held with senior management during which up-to-date and relevant information was obtained for each auditable area of activity. Opinions were sought as to the relative risks associated with each auditable unit, the consequences arising from those risks, and possible audit emphasis.

The results of the ANA were reviewed with the Financial Services Manager to ensure that all important areas of work had been covered and a reasonable priority ranking agreed within each area of responsibility. Based on the significance rankings, a three-year Strategic Audit Plan (**Appendix C**) has been produced which allocates audit days to each auditable unit. In preparing the Strategic Audit Plan, the concerns of management were taken into account. The policy on the frequency and depth of audits is set out in (**Appendix D**).

The Strategic Audit Plan will be reviewed annually to take account of changes in the auditable units and in the risks and consequences of auditable units. The specific scope and objectives of each assignment will normally be discussed with the relevant senior manager, prior to the commencement of the audit to take account of their concerns, and agree Terms of Reference.

It is intended to adopt a systems based approach to the assignment reviews in accordance with recommended professional practice. Where necessary, testing controls will be carried out on a sample basis. Sample sizes will be selected in order to provide Internal Audit with adequate evidence on which to base a valid conclusion about the operation of the internal controls.

Considerations will include the level of risk, previous knowledge of errors, the different types of transaction, and the groupings of staff dealing with the transactions. Where

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significant errors are found in a sample, the Audit Manager will assess whether a larger sample needs to be tested.

### **3. PLANNED COVERAGE**

The plan contained in [\(Appendix C\)](#) provides details of proposed audit assignments for each of the years 2017/18 to 2019/20.

The planned audit coverage in each year is shown below as a percentage of all identified auditable areas. Also included is the total risk to be covered each year as a percentage of the total risk assessed within these systems. In both cases, the Internal Audit Strategy provides that both audit and risk coverage will exceed 60% in each year.

	2017/18	2018/19*1	2019/20*1
<b>Percentage of risk coverage</b>	73%	70%	74%
<b>Percentage of audit coverage</b>	69%	68%	69%

\*1 – Detailed Internal Audit Plans for 2018/19 and 2019/20 will need to be determined to ensure that audit days required matches audit days available.

All systems categorised as High Risk by the Audit Needs Assessment or classed as a Key Risk system by External Audit, are covered in each year of the Plan.

The Plan focuses on direct delivery of audit time (ie chargeable audit provision). Although not shown separately, provision is also made for:-

- ***Audit Planning***
- ***Management Liaison & Reporting***
- ***Monitoring of the Council's Recommendations Database.***

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## 4. REPORTING FRAMEWORK

Internal Audit must:

*“report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility and performance, relative to its plan. (PSIAS 2060)  
“Communicate the results of engagements” (PSIAS 2400)*

The following reporting framework will be adopted:

Report	Nature of Report	When/Frequency	Report to
Internal Audit Charter	Defines internal audit’s purpose, authority and responsibility.	Annually	Accounts and Audit Committee
Internal Audit Strategy	Plan of engagements over a three year period based on a risk-based assessment.	Refreshed annually	Accounts and Audit Committee
Annual Audit Plan	Details of resource requirements and high level overview of audit engagements.	Annually (March)	Management Team/Accounts and Audit Committee
Individual Audit Reviews	Results of the review - to include objectives, scope, conclusions, recommendations and Management response.	On completion	Management with summary to Accounts and Audit Committee
Audit progress report	Summary of Internal Audit’s activity since the last Audit Committee update.	Accounts and Audit Committee	Accounts and Audit Committee
Follow up of recommendations	Results of follow up work undertaken to establish whether and how effectively management has implemented recommendations.	Accounts and Audit Committee	Management & Summary to Accounts and Audit Committee
Annual Audit Report	Summary of Internal Audit’s annual performance.	Annually (July)	Accounts and Audit Committee

Each individual assignment is given an overall assurance opinion based on the effectiveness of controls reviewed during the audit. The levels of assurance will be as follows:-

<b>Level of Assurance</b>	<b>Evaluation Opinion</b>	<b>Testing Opinion</b>
Full	There is a sound system of internal control designed to achieve the system's objectives.	Controls are being consistently applied
Substantial	While there is a basically sound system of control, there are weaknesses which may put the system objectives at risk.	There is a level of non compliance with some of the controls.
Limited	Weaknesses in the system of internal controls are such as to put the system objectives at risk.	The level of non compliance puts the system objectives at risk.
None	There is either very weak or no control leaving the system open to significant error or abuse	Significant non compliance with basic controls leaves the system open to error or abuse.

The reports for any audit areas that receive limited or no assurance will be submitted both to the Council's Management Team and the Accounts and Audit Committee for consideration.

It will be the responsibility of management to ensure that all agreed actions arising from an audit report are implemented in accordance with the timetable they have agreed. Where material weaknesses are identified through audit work which have not been actioned procedures allow for escalation to Management Team and the Accounts and Audit Committee.

The implementation of audit recommendations will be further monitored via the Internal Audit Recommendations Database (IARD). A summary of the IARD will be reported to the Accounts and Audit Committee and will highlight the status of recommendations.

The Audit Manager will report interim progress on the annual audit plan and any emerging issues at each meeting of the Accounts and Audit Committee.

An annual audit report will also be produced providing a review of the audit plan. The formal audit opinion will be included in the annual report to the Accounts and Audit Committee which will be provided no later than the date at which the Council's annual accounts are approved.

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## **5. SPECIAL INVESTIGATIONS**

The Internal Audit Unit is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations, special projects and consultancy work as necessary and as requested by the Council.

The prevention and detection of fraud and corruption is ultimately the responsibility of management, as this forms part of management's overall responsibilities. However, the Internal Audit Unit is aware of its role in this area and will be alert to the risk of fraud and corruption when undertaking its work. To this effect Internal Audit will report to management and the Accounts and Audit Committee any detected fraud and corruption identified during its work; or any areas where such risks exists.

## **6. EXTERNAL CONSULTATIONS**

In order to maximise the benefit from the Council's Internal and External Audit Services, the proposed Annual Audit Plan will be discussed with the External Audit provider, Grant Thornton.

The plan provides for Internal Audit to review the reliability of Key Financial or high risk systems in order to enable External Audit to plan reliance on this work of Internal Audit and there by reduce their own systems work.

External support will also be sought where it is felt that specialised skills are required to adequately review a system i.e. Computer audit. The level of external support will be reviewed annually.

Where applicable other forms of independent external assurance will also be considered in order to reduce (or eliminate) the need for independent assurance to be given by Internal Audit.



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## **7. QUALITY ASSURANCE**

The P.S.I.A.S. requires that a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of internal audit activity. The quality assurance and improvement programme must include both internal and external assessments. The following activities make up the QAIP at Pendle:

### **Internal Assessment**

- Completion of CIPFA's LGAN self-assessment checklist to assess compliance with PSIAS;
- Quarterly progress review of internal audit activity to the Accounts and Audit Committee and feedback from the Chair of the Accounts and Audit Committee on matters arising;
- Regular review and ICQ feedback of all internal audit reports;
- Annual certification confirming compliance with the Code of Ethics;
- Annual review of the system of Internal audit by the Financial Services Manager;
- Regular performance appraisal of Internal Audit staff and access to CPD training.

### **External Assessment**

- Feedback on internal audit activity during the year by the External Auditor (Grant Thornton)
- Frequent benchmarking of Internal Audit activity with other internal audit sections organised through the Lancashire District Council's Audit Group.
- The Internal Audit service is subject to an external assessment at least once every 5 years by an independent person/team.

## **8. REVIEW**

The Internal Audit Strategy will be reviewed on an annual basis and changes will be reported to the Accounts and Audit Committee.