

**INTERNAL AUDIT SERVICE**  
**AUDIT STRATEGY**

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### **1. INTRODUCTION**

- 1.1** The statutory basis for Internal Audit in Local Authorities in England is a specific requirement in the Accounts and Audit Regulations 2006 (as amended), which requires that the Council must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. The guidance accompanying the legislation states that, for principal local authorities, proper practices are prescribed by the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 1.2** The Audit Strategy is designed to be a high level statement of how the Internal Audit Service will be delivered and developed.
- 1.3** The Internal Audit Service is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources.
- 1.4** Internal Audit can also add value to the Council by undertaking pro-active and reactive consultancy work in the form of service, departmental or corporate reviews, provision of advice, fraud related work and risk management work.
- 1.5** The Accounts and Audit Regulations 2006 (as amended) state that the Council is responsible for ensuring the financial management of the Council is adequate and effective and that the Council has sound systems of internal control which facilitate the effective exercise of the Council's functions (including risk management). The Regulations also require that the Council should conduct a review, at least once a year, of the effectiveness of its systems of internal control and shall include a Statement on Internal Control in its financial statements. The Internal Audit Service is a key independent and objective source of assurance for the Council across the range of the authorities activities.

### **2 PURPOSE**

- 2.1** The purpose of this Audit Strategy is to record how the Internal Audit Service will be delivered and developed.

### **3 RESOURCES**

- 3.1** The Internal Audit Service is largely provided through an in-house service. This is supplemented by a private sector partner (Deloitte and Touche

Public Sector Internal Audit Ltd) to provide resources where skills gaps or other needs arise, to help with staff training and provide other services that will help the overall delivery of internal audit.

- 3.2** The Internal Audit Service is delivered by a range of skilled and experienced staff. A number of staff within the service are professionally qualified CCAB or Institute of Internal Auditors. Staff training needs are identified through the Council's Performance Appraisal and Development Scheme. Staff also participate in the Gold Leadership and Management Development Programme. Training is also be provided by the private sector partner.

**4 AREAS OF WORK**

- 4.1** Sections 4.2 to 4.6 describe the main areas of audit work. The work concentrates on assurance and risk-based audits, assistance with risk management and value for money projects. There is still a need for the traditional audits to help provide assurance for the Annual Governance Statement and to the External Auditors. The levels of work within these areas will be ascertained through discussions with senior management, members, and the External Auditor.

- 4.2** The annual audit plan will be devised through interview and discussions with all Head of Services and assessment of their risks including fraud. There is also endorsement from members of CLMT. The plan will be shared with the External Auditor to ensure there is no overlap of work and that no main areas of risk or assurance work have been missed. Part of the plan will include audits of corporate and departmental risks as recorded in risk registers.

**4.3 Audit Reports**

At the completion of each audit a report will be produced and agreed with appropriate management. This details the terms of reference and scope of the audit, findings, recommendations and a management action plan. There is an executive summary that includes an audit opinion on controls. The opinion can be one of four categories:-

<b>Substantial Assurance</b>	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
<b>Adequate Assurance</b>	While there is a basically sound system, there are weaknesses that put a minority of the system objectives at risk and/or there is evidence that the level of non-compliance with some of the controls may put a minority of the system objectives at risk.
<b>Limited Assurance</b>	Weaknesses in the system of controls are such as to put most or all of the system objectives at risk and/or the level of non-compliance puts most or all of the system objectives at risk.
<b>No Assurance</b>	Control is poor, leaving the system open to significant error or abuse and/or significant non-compliance with basic controls.

#### **4.4 ASSURANCE**

- 4.4.1** There are high-risk systems and processes (mainly core financial systems) that are to be reviewed on an annual basis to provide the required level of assurance. In undertaking these reviews it will be considered whether they need to be fully and systematically audited each year or whether techniques such as key control testing or significant compliance testing in some years will be adequate to form an opinion. The list and audit coverage of these systems will be agreed with the External Auditor and the Head of Corporate Finance and Procurement in his role as the Council's section 151 Officer.
- 4.4.2** An adequate range of other systems and establishments audits will need to be included to give additional credibility to the comprehensiveness of the opinion provided on the control environment. Risks not identified as being principal risks will still need to be given attention to gain assurance that material adverse impacts are not arising from these areas. These will be identified from interviews with all Heads of Service and assessment.
- 4.4.3** In delivering assurance to the Council the Internal Audit Service will also look to gain assurance from other agencies. For example, reviews or inspections completed by Ofsted or the Audit Commission.
- 4.4.4** There will be an agreed protocol between Internal Audit and the Council's External Auditors (Grant Thornton) to ensure there is good co-operation, liaison and the sharing of information to avoid duplication of effort. This will include discussing plans and regular meetings.

#### **4.5 RISK BASED AUDITS**

- 4.5.1** A risk based approach to auditing is operated. It is recognised that risk management needs to develop further to fully undertake risk based audits so assistance will be given in the development of risk registers. This approach offers more flexibility to address the Council's risks as they arise and establishes greater synergy between internal audit function and the management of risks facing the Council.
- 4.5.2** It is important to reiterate that the risk analysis belongs to managers. Management and not internal audit are accountable for the economy, efficiency and effectiveness of the risk management control and governance arrangements.

#### **4.6 VALUE FOR MONEY**

- 4.6.1** The Luton Excellence programme is now well developed and Internal Audit service will assist in this where appropriate, especially in the provision of lean change agents.

**4.7 CONSULTANCY AND PRO-ACTIVE WORK**

**4.7.1** Internal Audit will be available to assist services with control or operational issues and to provide advice. During the year there will be emerging risks or issues that need an independent view or review.

**4.7.2** Internal Audit will be pro-active in counter fraud work. Although it is not a function of Internal Audit to detect fraud (this is a responsibility of management and good system control) pro-active work will be undertaken to help ensure the Council has adequate systems and procedures to highlight potential instances and a strong counter fraud culture.

**4.8 OTHER WORK**

**4.8.1** In the specialist areas of contract and computer audits the work will, to a large extent, be undertaken by the private sector partner.

**4.8.2** There will also be provisions in the audit plan for special investigations and advice and consultancy to services as required.

**5 SERVICE PLAN**

**5.1** There is a detailed service plan for Internal Audit and this identifies the challenges and opportunities, objectives and risks and an action plan.