

**COMMITTEE: AUDIT AND GOVERNANCE**

**DATE: 14 MARCH 2012**

**SUBJECT: INTERNAL AUDIT STRATEGY 2012/13**

**REPORT BY: AUDIT MANAGER**

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**IMPLICATIONS:**

**LEGAL**

**COMMUNITY**

**SAFETY**

**EQUALITIES**

**ENVIRONMENT**

**FINANCIAL**

**OTHER**

**STAFFING**

**WARDS AFFECTED: NONE**

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### **PURPOSE**

1. To provide an opportunity for the Audit and Governance Committee to consider the annual audit strategy for 2012/13.

### **RECOMMENDATION**

2. **The Audit and Governance Committee to approve the Audit Strategy for 2012/13.**

### **BACKGROUND**

3. The Council has a statutory responsibility under the Accounts and Audit Regulations 2006 to maintain an effective internal audit of its activities. Internal Audit is an important element of the Council's risk management arrangements in terms of the work that it undertakes in evaluating and reporting upon the control environment across the Council. The Accounts and Audit Regulations also require that the Council shall be responsible for ensuring the financial management of the Council is adequate and effective and that the Council has sound systems of internal control that facilitate the effective exercise of the Council's functions.

### **REPORT**

- 4 The Audit Service has evolved during the last few years to provide a full internal audit service that not only covers the essential assurance work but

also undertakes pro-active and reactive consultancy work, provision of advice, fraud related work and risk management work.

- 5 Further to the restructures of the Internal Audit Service over the past few years the level of resources continues to be under pressure. Due to maternity leave of a member of the audit team our resources will be cut even further for 2012/13. As a result of this our work will be more concentrated on the audits of key controls in the core financial systems as required by the External Auditor.
- 6 In addition to this we have made a risk assessment of the key services provided by each service and will direct our resources accordingly. We will not use resources on reviewing areas which are subject to other external reviews.
- 7 By directing the Audit resource in this manner the level of coverage will enable the service to fulfil its statutory assurance and scrutiny function and for the Council and the External Auditor to place full reliance on the work of Internal Audit.
- 8 The Council needs to ensure there is a robust system of internal audit and for the service to maintain the current standards and depth and quality of audit review. There are a number of monitoring and consultation roles for audit which includes:-
  - Audit plan – prepared in consultation with management, the External Auditor, the Audit and Governance Committee and approved by Executive. The review of the Audit Plan by the External Auditor helps to ensure the plan is robust and covers all main systems and areas of risk.
  - Monitoring - the CIPFA Code of Practice for Internal Audit details the standards that have to be met and ensures the Council can place full reliance on its Internal Audit Service. Monitoring of performance and quality of the service is by the Section 151 Officer and the Audit and Governance Committee. There is also an annual review of the work and quality of internal audit by the Council's External Auditors. This ensures internal audit work is in compliance with the CIPFA Code and of the standard required so the External Auditor can place reliance on the work and does not have to undertake extensive audits themselves. This helps to contain the cost of External Audit.
- 9 Internal Audit reports to the Head of Finance although independence is maintained by a direct reporting line to the Chief Executive, Leader of the Council and the Audit & Governance Committee. This meets the CIPFA regulations and has the support of the Head of Finance and the External Auditor.
- 10 The Audit Manager will report to the Audit & Governance Committee on a quarterly basis. Each quarterly report will include a discussion of areas

which have been given an opinion of 'limited assurance' on the control environment. Internal Audit will follow up on recommendations made during the year and will report back to Audit & Governance Committee on the level and degree of implementation.

### **RISK IMPLICATIONS**

- 11 There are no risk implications to this report other than those set out in the body of the report.

### **FINANCIAL IMPLICATIONS**

- 12 There are no risk implications to this report other than those set out in the body of the report. This has been agreed by the Head of Finance on the 29<sup>th</sup> February 2012

### **LEGAL IMPLICATIONS**

- 13 There are no direct legal implications to this report save for those set out in the body of the report. This has been agreed with the Head of Legal Services on the 1st March 2012.

### **APPENDICES**

- 14 The following appendices are attached to this report:-

Appendix A - Audit Strategy for 2012/13.

### **LIST OF BACKGROUND PAPERS**

#### **LOCAL GOVERNMENT ACT 1972, SECTION 100D**

- (a) The Accounts and Audit Regulations 2006.
- (b) The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

**INTERNAL AUDIT STRATEGY 2012/13**

**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 authority's activities.

**2 PURPOSE**

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

### **3 RESOURCES**

- 3.1** The Internal Audit Service is provided in-house by a dedicated team of Auditors. This has previously been supplemented by a private sector partner (Deloitte and Touche Public Sector Internal Audit Ltd) to provide specialist computer and contract audits. This resource was reduced to 20 days in 2011/12 as a budget saving and will be removed totally from the budget for 2012/13. However, there is a need for these skills and audit staff are undertaking training in these areas to fill the skills gaps in the service to 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 Accountants or have qualified with the Institute of Internal Auditors. Other staff are actively studying for the Association of Accounting Technicians (AAT) qualification. During the year we have appointed a Trainee Auditor. Additional staff training needs are identified through the Council's Performance Appraisal and Development Scheme.

### **4 AREAS OF WORK**

- 4.1** The work of the service concentrates on assurance and risk-based audits, assistance with risk management and consultancy and advice. We also audit all schools on a rolling three year programme. There is still a need for the traditional audits to help provide assurance for the Annual Governance Statement and to the External Auditors. The level 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 prepared through discussions with Heads of Service and assessment of their risks including fraud. 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** In addition to the work highlighted above we also review Active Luton Leisure Trust, Luton Cultural Services Trust, LLA Ltd (concessionary payments) and The Mall (Statement of Head Rent).

#### **4.4 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.

## **4.5 ASSURANCE**

**4.5.1** 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. For 2012/13 all the core financial systems will be fully audited. The list and audit coverage of these systems will be agreed with the External Auditor and the Head of Finance in his role as the Council's section 151 Officer.

**4.5.2** An adequate range of other systems and establishment 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 Heads of Service and assessment.

**4.5.3** 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.

## **4.6 RISK BASED AUDITS**

**4.6.1** A risk based approach to auditing is operated. The Audit Plan has been constructed from discussions and a risk matrix being completed with Heads of Service. The Authority's Risk Management System (JCAD) was also reviewed. This approach allows audit to concentrate on the areas with the highest levels of risk.

**4.6.2** The Annual Plan will be reviewed during the year as part of the outcome from the delivery & accountability meetings where Heads of Service have been asked to review their risks in line with their service plans. When this has been done we will need to review our approach to the management of risk.

**4.6.3** 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.

#### **4.7 VALUE FOR MONEY**

**4.7.1** The Luton Excellence programme is now well developed and Internal Audit service will assist in this where appropriate.

#### **4.8 CONSULTANCY AND PRO-ACTIVE WORK**

**4.8.1** 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

**4.8.2** 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

#### **4.9 OTHER WORK**

**4.9.1** In 2012/13 the specialist areas of contract and computer audits will be undertaken by the in-house team. There will also be provision in the Audit Plan for special investigations and advice and consultancy to services as required.

#### **4.10 REPORTING**

**4.10.1** The Audit Manager will report to the Audit & Governance Committee on a quarterly basis. Each quarterly report will include a summary of key performance indicators, progress on the Annual Plan and a discussion of areas which have been given an opinion of 'limited' or 'no' assurance on the control environment.

**4.10.2** Where an Audit has resulted in an opinion of 'limited' or 'no' assurance on the system of controls we will report this to Audit & Governance Committee. We will then follow this audit up six months later and report our findings back to the Audit & Governance Committee.

**4.10.3** All Internal Audit recommendations made during the year will be followed up and a report will be made to Audit & Governance Committee on the level and degree of implementation.