

STAFFORD BOROUGH COUNCIL - INTERNAL AUDIT STRATEGY

1. INTRODUCTION

- 1.1 This document sets out the strategy for the Internal Audit service at Stafford Borough Council. It will be incorporated within the Internal Audit Service Plan.

2. INTERNAL AUDIT OBJECTIVES AND OUTCOMES

- 2.1 Internal Audit 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.

- 2.2 Specific objectives for Internal Audit at Stafford BC are :-

- to understand the whole organisation (its needs, objectives and sources of assurance) and to plan its work accordingly to assist the organisation in achieving its objectives
- to operate in accordance with best practise as specified in CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom
- to add value to the services subject to internal audit
- to achieve at least 90% of the Annual Audit Plan
- to facilitate the work of the Audit & Accounts Committee
- to provide assurance to the Audit & Accounts Committee on the adequacy of the Council's internal control environment
- to provide a "best value" service and to be within the top quartile of like services
- to share best practise and seek opportunities for joint working with other organisations' audit teams.

- 2.3 Achievement of these objectives will be measured in terms of the outcomes in the table below:-

VISION / OBJECTIVE	ACHIEVEMENT / OUTCOME
Best Practise	Confirmation from the Audit Commission that IA operates in accordance with the CIPFA Code of Practise. Annual review of IA undertaken and results reported to the Audit & Accounts Committee.
Planning of audit work based on understanding of the organisation	Approval of Strategic Audit plan by Section 151 officer, Chief Executive, the Corporate Management Group and the Audit & Accounts Committee.
Value added	Client satisfaction scores (from managers and the Section 151 officer) reported to the Audit & Accounts committee.
Achieve 90% of Audit Plan	Annual report to the Audit & Accounts Committee

Facilitate work of the Audit & Accounts Committee.	Presentation of IA Strategy and Terms of reference to explain role of IA. Provision of training regarding role of Audit Committee. Presentation of quarterly & annual audit reports. Private meetings with Chairman of Audit & Accounts Committee. Provision of audit reports to Chairman. Review of the Committee's own remit and effectiveness.
Assurance on the internal control environment to the Audit & Accounts Committee	Annual IA report to the Committee reporting on the overall assessment of the control environment. This assessment included in the annual Statement on Internal Control.
Best Value Service	Performance indicators for the IA service reported to the Audit & Accounts Committee. Annual benchmarking exercise results reported to Audit & Accounts Committee.
Share best practise / joint working	Attendance at Staffordshire Chief Auditors Group (SCAG) plus benchmarking with SCAG and CIPFA. Joint working protocol with Audit Commission. Joint contract with SCAG for external audit assistance.

3. HOW THE INTERNAL AUDIT SERVICE WILL BE PROVIDED

3.1 The current method of service delivery was determined from the best value review of the Internal Audit service (2001/02) which confirmed that:-

- the in-house service was well managed and controlled and provided an effective service in accordance with best practise;
- the council was benefiting from a competitive in-house service in terms of price;
- there was an external market for internal audit services but at a higher cost ;
- there was little interest (from the private sector or other local authorities) in partnering arrangements.

3.2 Annual consultation and benchmarking exercises carried out since the best value review have continued to endorse the in-house service. In view of this it is proposed that the current method of service delivery be continued for the present time i.e.

- the service should predominantly be provided by the in-house Internal Audit section;
- the in-house resource should be supplemented by the use of audit

- contractors from the private sector for specialist skills (i.e. information technology) and to cover in-house vacancies that may arise;
- joint working arrangements should be maintained with other Staffordshire local authorities including the purchase of external audit assistance via a joint specification / contract.

3.3 The economy, efficiency and effectiveness of this method of service delivery will continue to be monitored on an annual basis via annual consultation, benchmarking and market testing. Additionally, the method of service delivery for Internal Audit will be considered as part of the Council's general consideration of the scope for shared services with other councils.

4. FORMULATION OF THE ANNUAL OPINION ON THE INTERNAL CONTROL ENVIRONMENT WHICH SUPPORTS THE ANNUAL STATEMENT ON INTERNAL CONTROL

4.1 Local authorities are required to publish an annual Statement on Internal Control (SIC) alongside the Statement of Accounts. This statement provides an assessment of the degree of reliance that can be placed upon the Council's internal control system to ensure that :-

- the Council's assets are safeguarded and not subject to waste, fraud, corruption or poor value for money;
- policies, regulations and directives are complied with, in order to achieve the Council's objectives;
- key records held by the authority are complete and accurate, due to the relevance, reliability and integrity of the information involved;
- statutory requirements are complied with.

4.2 The annual statement on the Council's control system is the responsibility of the council's Strategic Risk Management Group comprised of the Executive Director (s151 officer), Head of Law & Administration, Head of Policy & Improvement, Head of Human Resources, Head of Regeneration, Financial Services Manager (representing both Internal Audit and Risk Management sections). The process for drafting the SIC has been approved by the Corporate Management Group who also provide input to the SIC via Managers Assurance Statements.

4.3 The SIC incorporates a statement by Internal Audit based upon the on-going work carried out by and on behalf of Internal Audit (and also drawing upon the work of the external auditor). Internal Audit's assessment of internal control will be derived from the following bases:

- (i) the scope of internal audit activity will encompass the entire internal control environment of the Council (financial and non financial) and all key areas of activity will be audited during the 5 year period of the strategic audit plan;
- (ii) the frequency of auditing each area of activity will be determined by the application of a formal risk assessment methodology; all high risk areas will be subject to audit on an annual basis;
- (iii) for each area of activity audited, the recommendations arising will be categorised as fundamental, significant or merits attention (see Appendix 1);

- (iv) for each area of activity audited, the level of internal control operating therein will be classified as either good, satisfactory, marginal or unsatisfactory dependent upon the number / level of the audit recommendations made (see Appendix 1);
- (v) the annual assessment of the Council's overall internal control environment will be based upon the classified control levels applied to areas of activity during the year and the management action taken to address these.

4.4 Two simple examples are highlighted below.

Scenario 1

System Audited	Classification of Recommendations	Level of Internal Control	Recommendations Implemented	Overall Level of Assurance
1	5 x fundamental 6 x significant	Unsatisfactory	No	Insufficient – the level of internal control operating in the majority of systems has been classified as unsatisfactory and audit recommendations have not been addressed
2	6 x fundamental 3 x significant	Unsatisfactory	No	
3	1 x fundamental 4 x significant	Marginal	Yes	
4	8 x fundamental 5 x significant	Unsatisfactory	No	
5	5 x fundamental 3 x significant	Unsatisfactory	No	

4.4.1 In scenario 1, the Annual Statement would conclude that reliance could not be placed upon the Council's internal control system.

Scenario 2

System Audited	Classification of Recommendations	Level of Internal Control	Recommendations Implemented	Overall Level of Assurance
1	1 x fundamental 4 x significant	Marginal	Yes	Sufficient – the level of internal control operating in the majority of systems has been classified as good and audit recommendations have been addressed
2	1 x significant 3 x merits attention	Satisfactory	Yes	
3	3 x merits attention	Good	Yes	
4	2 x merits attention	Good	Yes	
5	No recommendations	Good	N/A	

4.4.2 In scenario 2, the Annual Statement would conclude that a reasonable degree of reliance could be placed upon the Council's internal control system.

4.3 The second role of Internal Audit within the SIC process is to audit the draft SIC compiled by the SRMG and the accompanying evidence. The results of the audit are reported to the Audit & Accounts Committee who are responsible for approving the draft SIC for inclusion in the Statement of Accounts.

5. RESOURCES AND SKILLS REQUIRED FOR DELIVERY OF THE AUDIT STRATEGY

5.1 The Council is required to provide sufficient resources to enable an adequate and effective Internal Audit service to be provided :-

- appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or access to appropriate resources to meet its objectives and professional standards;
- a professionally qualified Internal Audit Manager with wide experience of internal audit and management.

5.2 Delivery of the audit strategy is encapsulated within the strategic audit plan which is approved by the Audit & Accounts Committee. In addition to the pure assurance work, the plan builds in an element of time for :-

- consultancy services
- contingency (re fraud investigation work).

5.3 Essentially the mix of services provided by the Internal Audit section was agreed during the course of the best value review of the service following consultation with all stakeholders of the service. However, this mix of service is subject to annual review as part of the planning cycle. Feedback from the annual consultation exercises also feeds this review process.

5.4 New areas of activity continue to be taken on by the Council which need to be included in the audit plan i.e. new funding, areas in which the Council act as the Accountable Body, etc. This has been accommodated by:-

- extending the period of the strategic audit plan from 3 years up to 5 years which is deemed to be the maximum
- some re-alignment of audit resources (use of some professional fees for in-house staffing to increase the overall number of days available).

5.5 The Council has recently reviewed its corporate project management arrangements and adopted the Prince 2 methodology for major projects. Internal Audit have been assigned to undertake the project assurance role.

5.6 At the current time, the in-house team and minimal use of external contractors provide a sufficient number of days to cover all of the areas identified in the strategic audit plan (including new areas identified for 2007/08). The current resource comprises:-

- | | | |
|----------------------|---|---|
| Principal Auditor | - | Scale PO 39 to 42 plus market supplements (4 days per week) |
| Senior Auditor | - | Scale SO 2 (full time) |
| Auditor | - | Scale SO 1 (full time) |
| Audit Assistant | - | Scale 2/3 (full time) |
| External Contractors | - | approx. 30 days per annum. |

5.7 The level of resources required to deliver the audit strategy will continue to be monitored on an annual basis.

- 5.8 In addition annual benchmarking exercises will continue to be undertaken to assess the economy, efficiency and effectiveness of the in-house team.
- 5.9 Staff turnover and associated problems regarding recruitment of internal auditors has been identified within the service plan as a key risk to the achievement of the audit strategy. Mitigating actions have been identified and included in the service development plan including:-
- employee satisfaction surveys
 - maintenance of contract with private sector
 - review and development of staff
 - continued use of market testing / application of market supplements as appropriate.
- 5.10 With regard to the skills required to deliver the audit strategy skills and competencies are defined for each level of auditor and staff are assessed against these predetermined skills and competencies. This is closely linked to the Investors in People process. Each year as part of the service planning process, objectives are set for the Internal Audit service as a whole, and these are translated into individual objectives for each employee. Training needs are then identified for individuals as part of the on-going review and development process.
- 5.11 The structure / mix of the internal audit team is also based upon an assessment of staffing / skills requirements. Again, annual benchmarking exercises are undertaken to review the appropriateness of the team in terms of:-
- numbers
 - grades
 - qualifications
 - experience.
- 5.12 The current audit resource provides for the following:-
- 5.12.1 Financial Services Manager – the specific requirements of the manager of the Internal Audit function are set down in the approved Internal Audit Terms of Reference.
- 5.12.2 Principal Auditor – this post requires a qualified accountant who is responsible for the high level reviews i.e. accountancy audits, strategic risk register audits, control self risk assessment, special investigations, consultancy work, project assurance. The post-holder undertakes systems based audits and is also expected to contribute to the development of the Internal Audit section.
- 5.12.3 Senior Auditor – a part qualified / experienced auditor responsible for the day to day supervision of junior audit staff. The post-holder has specific responsibility for Housing Benefits audits and project assurance, undertakes systems based audits and assists with investigations etc. The Senior Auditor also undertakes Information Technology audits that do not require specialist IT skills / knowledge.
- 5.12.4 Auditor – an experienced auditor with specific responsibility for the Contract Audit function and for the induction training relating to internal audit. The post-

holder undertakes systems based audits and investigations etc and provides substantial input to procurement and performance management..

- 5.12.5 Audit Assistant – the post-holder undertakes systems based audits with minimum supervision and assists with other specialist audit work. In addition, the post-holder is responsible for developing the use of Computer Assisted Audit techniques and acts as the reserve auditor for the housing benefits reviews.
- 5.12.6 Whilst the in-house staff provide the key skills required to deliver the audit plan this is supplemented by the use of external contractors to provide specialist IT skills. This is the most cost effective way to purchase those skills as required to deliver the computer audit aspect of the audit plan. External contractors can also be utilised to cover for any vacancies that may arise so as to minimise any impact on the section's capacity to deliver the audit plan.
- 5.12.7 In addition to the above, the Internal Audit section will continue to supplement in-house skills / knowledge by networking and maintaining constructive working relationships with review agencies and specialists, e.g.

Internal: Head of Policy & Improvement
 Head of Human Resources
 Performance Management Officer
 Risk Manager
 Corporate Risk Management Group
 Policy & Improvement officers
 Monitoring Officer / Head of Law & Administration
 Health & Safety Officer.

External: District Auditor
 Chartered Institute of Public Finance
 West Midlands Local Government Association
 National Anti Fraud Network
 Audit Contractor
 Police
 Specialised Investigation Services
 Staffordshire County Council
 Benchmarking Clubs
 Staffordshire Chief Auditors Group
 Midlands Districts Chief Auditors Group
 Staffordshire Computer Audit Group
 Midlands Contract Auditors
 E-Government Partnership.

- 5.12.8 In addition, Internal Audit and the external auditors (Audit Commission) operate under joint working arrangements to ensure the most economic, efficient and effective use of audit resources.

6. **INTERNAL AUDIT'S WORK TO IDENTIFY AND ADDRESS SIGNIFICANT LOCAL AND NATIONAL ISSUES AND RISKS**

- 6.1 The full list of potential areas, systems, processes etc. that may be subjected to internal audit are identified by the manager of the Internal Audit section on an annual basis from previous knowledge and experience, review of the

Council's budget book, discussions with members of the Corporate Management Group (CMG), with colleagues at other local authorities and with the Audit Commission.

- 6.2 In addition, account is taken of the Council's risk management and performance management processes together with the outcome of any other assurance processes i.e. inspection or Audit Commission reports.
- 6.3 The Council's risk management process is well established and strategic and operational risks are identified annually by the CMG (taking account of national and local risks) and incorporated into strategic and operational risk registers. These risk registers are linked annually to the audit plan.
- 6.4 With regard to the area of Information Technology, external audit contractors are utilised on a periodic basis to carry out a separate IT Audit Needs Assessment which is also used to formulate the audit plan.

7 REVIEW & CONTROL

- 7.1 This strategy will be reviewed on an annual basis and any changes will be reported to the Audit & Accounts Committee.
- 7.2 The strategy will be included in the Internal Audit service plan and actions arising will be incorporated in the Service Development Plan.

INTERNAL AUDIT – AUDIT OPINION

Internal Audit recommendations will be categorised / ranked in terms of significance. The number of recommendations within each category will then have a direct bearing upon the classification of the level of internal controls operating within individual systems.

RANKING OF RECOMMENDATIONS

RANK		DEFINITION
1	Fundamental	Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation. Immediate action required – should be pursued immediately.
2	Significant	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist. Significant point – should be pursued in the short term ideally within next 3 to 6 months.
3	Merits Attention	Current procedure is not best practise and could lead to minor inefficiencies. Action should be taken over next 6 to 12 months

CLASSIFICATION OF INTERNAL CONTROL LEVELS

CONTROL LEVEL	DEFINITION
Good	Robust framework of controls - provides substantial assurance. A few minor recommendations (if any) i.e. category 3
Satisfactory	Sufficient framework of controls - provides adequate assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly in merits attention category i.e. mainly category 3 but one or two in category 2
Marginal	Some lapses in framework of controls – provides limited assurance. A number of areas identified for improvement. A number of significant recommendations maybe including fundamental i.e. mainly category 2 but one or two in category 1
Unsatisfactory	Significant breakdown in framework of controls – provides inadequate assurance. Unacceptable risks identified – fundamental changes required. A number of fundamental recommendations i.e. category 1.

The annual Statement of Internal Control will be based upon the control levels applied to audits during the financial year.