

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation & Improvement)	Audit Committee	27/9/07

INTERNAL AUDIT STRATEGY

PURPOSE OF THE REPORT

- 1 To seek the Audit Committee's approval of a new Internal Audit Strategy which is a requirement of the latest CIPFA Code of Practice for Internal Audit.

RECOMMENDATIONS

- 2 That the new Internal Audit Strategy is approved

EXECUTIVE SUMMARY OF REPORT

- 3 The Council is now required at least once a year to conduct a review of the effectiveness of its system of internal audit. This was recently carried out using the CIPFA Code of Practice as the basis for the review.
- 4 The review identified no substantive compliance issues, with the exception of the need for us to produce a formal Internal Audit Strategy. This report contains a draft Audit Strategy for members' approval, the contents of which are explained in the remainder of this report.

CORPORATE PRIORITIES

- 5 This report relates to the following Strategic Objectives:

Put Chorley at the heart of regional economic development in the central Lancashire sub region		Improved access to public services	
Improving equality of opportunity and life chance		Develop the character and feel of Chorley as a good place to live	
Involving People in their Communities		Ensure Chorley is a performing Organisation	✓

BACKGROUND

- 6 The Accounts & Audit (Amendment) (England) Regulations 2006 state at paragraph 6(3) that (the Council) "shall at least once a year conduct a review of the effectiveness of its system of internal audit". The Audit Commission carry out a detailed review of Internal Audit on a triennial basis. The latest CIPFA Code of Internal Audit Practice also contains a self-assessment toolkit for the same purpose. Therefore to comply with the Regulations, we aim to rely on the Audit Commission's triennial review and perform internal self-assessments in the intervening years.

7 On this basis we have undertaken a self-assessment of the system of internal audit for 2006/7 and identified no substantive compliance issues, with the exception of the need for us to produce a formal Internal Audit Strategy.

INTERNAL AUDIT STRATEGY

8 The CIPFA Code of Practice recommends that there is an Internal Audit Strategy for delivering the service which is kept up to date with the organisation and its changing priorities.

9 The Strategy should include:

- Internal Audit objectives and outcomes
- How the Head of Internal Audit will form and evidence his or her opinion on the control environment
- How Internal Audit's work will identify and address local and national issues and risks
- How the service will be provided, i.e, internally, externally or a mix of the two
- The resources and skills required to deliver the Strategy

10 The Code of Practice also states that the Strategy should be approved by the Audit Committee. The attached Internal Audit Strategy document has therefore been drafted to comply with these recommendations.

IMPLICATIONS OF REPORT

11 This report has no implications for specific Directorates. The matters raised in the report are cross cutting and impact upon the authority as a whole.

GARY HALL
 ASSISTANT CHIEF EXECUTIVE
 BUSINESS TRANSFORMATION & IMPROVEMENT

Background Papers			
Document	Date	File	Place of Inspection
CIPFA Code of Practice for Internal Audit in Local Government	2006	FINANCE DIRECTORATE	UNION ST OFFICES
Accounts & Audit (Amendment) (England) Regulations	2006		

Report Author	Ext	Date	Doc ID
Garry Barclay	5468	18/8/07	IA STRATEGY.doc

Chorley Council

Internal Audit Strategy

**AUDIT & RISK SERVICE
FINANCE DIRECTORATE
SEPTEMBER 2007**



INTERNAL AUDIT STRATEGY

Introduction

The CIPFA Code of Practice for Internal Audit in Local Government recommends that there is an Internal Audit Strategy for delivering the service which is kept up to date with the organisation and its changing priorities.

The Strategy should include:

- Internal Audit objectives and outcomes
- How the Head of Internal Audit will form and evidence his or her opinion on the control environment
- How Internal Audit's work will identify and address local and national issues and risks
- How the service will be provided, i.e, internally, externally or a mix of the two
- The resources and skills required to deliver the Strategy

The Strategy should also be approved by the Audit Committee

Objectives & Outcomes of the Internal Audit Service

The Accounts and Audit Regulations 2003 require every local authority to “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”. Such practices are laid down as standards in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

The CIPFA Code of Practice defines Internal Audit as “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”.

Internal Audit Opinion on the Control Environment

Every Internal Audit report contains an individual opinion on the adequacy of control for the area / system reviewed. To arrive at an annual judgment on the overall level of control a view is taken on the relative significance of each area audited and the nature and significance of the weaknesses identified.

On this basis, the overall Internal Audit opinion on the control environment is given in the Annual Report to the Audit Committee.

This in turn provides a key source of evidence and assurance supporting the Annual Governance Statement which is published by the Council alongside its annual financial statements.

Risk Management & Internal Audit

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control and to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Under the Council's Risk Management Framework, Directors have primary responsibility for managing business risks on a day-to-day basis. This is underpinned by a system of risk registers which form part of the Corporate Strategy and Directorate Business Improvement Plans. As an independent appraisal function Internal Audit's role is to assist managers in this process by evaluating risks in specific areas, providing assurance wherever possible and making recommendations to optimise levels of control.

Scope of Internal Audit

The scope of Internal Audit allows for unrestricted coverage of the authority's activities and unrestricted access to all records and assets deemed necessary in the course of the audit. In addition, Internal Audit, through the Audit and Risk Manager will have unrestricted access to:

- the Chief Executive
- members
- all authority managers and employees.

Audit Independence

The main determinant of the effectiveness of Internal Audit is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows:

- unrestricted access to senior management
- reporting in its own name
- segregation from line operations.

Objectivity will be preserved by ensuring that all audit personnel are free from conflicts of interest and do not undertake any non-audit duties.

All Internal Audit activities will be carried out in accordance with the specific authorities provided by the Council's Financial Procedure Rules.

Internal Audit Responsibilities

The main areas of Internal Audit responsibility within the authority are to:

- Review, appraise and report on:
 - (a) the soundness, adequacy and application of financial and other management controls;
 - (b) the degree of compliance with established regulations, policies and procedures;
 - (c) the extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds, including waste or poor value for money;
 - (d) the suitability and reliability of financial and other management information developed within the organisation.
- Investigate frauds and irregularities in accordance with the Council's Internal Investigations Procedure.
- Advise on internal control implications of new systems.
- Provide advice and direction on governance, including risk management.

Audit Planning

The primary task of Internal Audit is to review the systems of internal control operating throughout the authority and in this will adopt a predominantly systems-based approach to audit.

The Audit and Risk Manager will manage the provision of a complete audit service to the authority which will include management, systems, regularity, computer and contract audit. In discharge of this duty, the Audit and Risk Manager will:

- prepare an annual audit plan for formal agreement by the Audit Committee and Executive Cabinet. There will be full consultation on the content of annual audit plans involving the Director of Finance, other chief officers and external audit.
- ensure that annual plans will take account of the outcome of the authority's strategic risk assessment process and issues raised by External Audit, for example in their Use of Resources report.
- ensure a system of close supervision of audit work and maintain a review of audit working papers;
- prepare interim and annual reports on Internal Audit activities for presentation to the Audit Committee and Executive Cabinet.

Audit Resources

The Internal Audit Service will comprise of a mix of suitably qualified and experienced staff. Upon request by the Director of Finance, appropriate specialists from directorates other than Finance should be made available to take part in any review requiring specialist knowledge.

The Council's overall audit service comprises a mix of in-house and externally sourced resources. The Council has entered into a partnership with Lancashire Audit Services for the supply of general and computer audit services.

As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal financial control. However, in strict emergency situations only, Internal Audit personnel may be called upon to carry out non-audit work on a short-term basis.

Members of the Internal Audit Service will be expected to contribute to the general management and conduct of the Council's business through membership of working groups and participation in ad-hoc exercises as appropriate.

Audit Training

The Audit and Risk Manager will carry out a continuous review of the development and training needs of all Internal Audit personnel and will arrange in-service training including both internal and external courses.

Customer Liaison & Reporting

In addition to consultation on annual audit plans, Directors will also be consulted at the start of all audit assignments. Agreement will be sought on the terms of reference, timing and other issues relating to specific assignments.

All substantive audit assignments will be the subject of formal reports. Draft reports will be sent to the managers responsible for the area under review to agree upon the factual accuracy of the findings and the appropriateness of the recommendations made.

After agreement, final reports will be issued to the Directors concerned with copies sent to the Chief Executive and Director of Finance.

All audit reports will be formally followed up to monitor actual implementation of the agreed recommendations.

Quality Control

Internal Audit Feedback questionnaires will be issued with each final audit report to enable managers to feed back on and facilitate continuous improvement of the Internal Audit Service.

Relationship with External Audit

To ensure proper co-ordination of the authority's overall audit arrangements, the Internal Audit Service will, in conjunction with the authority's external auditor, produce a protocol for liaison and joint working and keep it under review.

The protocol will contain provisions enabling the Internal Audit Service to follow up external audit reports and recommendations.

Client Obligations

Effective audit service delivery is a two-way process involving co-operation by Directors and service managers. In specific terms, they need to:

- Identify, evaluate and manage business (including financial) risks on a day-to-day basis;
- Identify specific risk areas for potential review by Internal Audit;
- Provide constructive input to and feedback on annual Internal Audit Plans;
- Provide input to the terms of reference for individual Internal Audit reviews;
- Ensure that accurate, up-to-date information is made available to auditors on a timely basis;
- Evaluate and take ownership of draft audit recommendations, taking account of risk and cost-effectiveness;
- Respond to audit reports on a timely basis;
- Implement agreed audit recommendations in accordance with agreed timescales.

It is accepted that managers will not necessarily accept all Internal Audit recommendations. However, in rejecting any recommendations they should explicitly identify how the risks highlighted by Internal Audit will be addressed or why they consider them to be insignificant.

Reviewing the Effectiveness of the System of Internal Audit

The Accounts & Audit (Amendment) (England) Regulations 2006 state at paragraph 6(3) that (the Council) "shall at least once a year conduct a review of the effectiveness of its system of internal audit". The regulations go on to say that the findings of this review be considered by a committee of the Council as part of the wider consideration of its system of internal control / governance.

The Audit Commission conduct a detailed review of Internal Audit on a triennial basis. The latest CIPFA Code of Internal Audit Practice also contains a self-assessment toolkit / checklist for the same purpose. Our recommendation therefore is that the Audit Committee relies on the Audit Commission's triennial review plus internal self-assessments in the intervening years.