

# INTERNAL AUDIT SERVICE

## INTERNAL AUDIT STRATEGY

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### INTRODUCTION AND STRATEGIC CONTEXT

As funding reductions take effect the context for local government and for the overall governance, risk and control environment within which it operates is increasingly challenging. Efficiency and transformation programmes are fundamentally altering the nature and structure of the Council. Services which have become increasingly sophisticated in their understanding of risk management and may be prepared to accept greater levels of controlled risk in order to achieve their aims. There is greater transparency and scrutiny of public expenditure and governance. These changes affect the overall governance, risk and control environment.

To give value in this context, internal audit will deliver the core responsibilities, which are to provide appropriate assurance to members and senior management on the effectiveness of governance, risk and control arrangements in delivering the achievement of Council and Service objectives. Internal Audit will identify and focus its effort on what is significant, risky and important and have the right skills and resources to deliver. It will comply with appropriate regulations and the Public Sector Internal Audit Standards.

Our vision is for a service which:

Is focused on what is important	Deploying its resources where there is most value. The focus will lean towards the corporate objectives and priorities, the processes to facilitate these and the key risks to their achievement, whilst ensuring sufficient assurance to support the annual governance statement. Being flexible and responsive to the needs of the Council.
Is outward looking and forward focused	Being aware of national and local developments and of their potential impact on the Council's governance, risk management and control arrangements.
Provides assurance	There is value in providing assurance to senior managers and members that the arrangements they put in place are working effectively, and in helping managers to improve the systems and processes for which they are responsible.
Gets the right balance of independent support and challenge	Avoiding a tone which blames, but being resolute in challenging for the wider benefit of the Council and people of Milton Keynes
Has impact	Delivering work which has buy-in and which leads to sustained change
Is welcomed at the top table	Identifying and sharing organisational issues and themes, that are recognised and taken on board. Working constructively with management to support new developments.
Strengthens the governance of the Council	Being ambassadors for and encouraging the Council towards best practice in order to maximise the chances of achieving its objectives, including the provision of consultancy and advice.

## PURPOSE

The purpose of the audit strategy is to put in place an approach that will enable Internal Audit to deliver a modern and effective service that

- Meets the requirements of the Public Sector Internal Audit Standards and the Accounts and Audit Regulations 2011;
- Ensures effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Members and management;
- Provides an independent annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment;
- Identifies the highest risk areas of the Council and allocates available internal audit resources accordingly;
- Adds value and supports senior management in providing effective control and identifying opportunities for improving value for money; and
- Supports the S151 officer in maintaining prudent financial stewardship for the Council

The Strategy is supported by:

- The Internal Audit Charter
- The Customer Charter
- The Internal Audit Handbook
- The Internal Audit Plan

## HOW THE SERVICE WILL BE PROVIDED

Internal Audit may procure external audit resource to enhance the service provision as necessary and also provide some services to customers outside of MKC. The Internal Audit Service maintains an ongoing and comprehensive understanding of:

- Local Government / Public Sector
- Milton Keynes Council and community
- Professional Audit and Corporate Governance standards

## Resources and Skills

Whilst the number of available audit days to the Internal Audit Service has decreased this is still considered to be sufficient to enable the audit service to deliver the risk based plan in accordance with professional standards. This takes into account the fact that additional resource will be procured as and when necessary e.g. for technical IT audits, when significant resource is diverted through unplanned work. The focus on the high risk areas will reduce the overall coverage required.

In order to deliver the Annual Audit Plan at the required quality and professionalism we strive to ensure that the team have the required mix of skills and experience. The use of external experts e.g. IT auditors compared to employing or developing these expensive resources in house is constantly under review to ensure that the service delivers a high quality product at best value

for money. Future recruitment will take into account the expertise and skills required to fill any gaps within the current service.

The breadth of coverage within the plan necessitates a wide range of high quality audit skills. The types of audit work undertaken include:

- Risk based system audit
- Compliance audit
- IT audit
- Procurement and contract management audit
- Project and programme audits
- Fraud/investigation work
- Value for money audit
- Control self assessment techniques
- Consultancy and advice

All staff within the audit service hold a relevant professional qualification or part qualification. All participate in continuing professional development, both in relation to specific audit skills e.g. contract audit, and softer skills e.g. communication skills.

The Audit Services Manager operates in accordance with the CIPFA guidance on the 'Role of the Head of Internal Audit in Public Service Organisations'.

## **GIVING ASSURANCE**

### **Internal Audit Annual Opinion**

Each year the Head of Internal Audit will provide a publicly reported opinion on the effectiveness of governance, risk and control, which also informs the Annual Governance Statement. This will be supported by reliable and relevant evidence gathered through all work undertaken by Internal Audit during the year.

The work of Internal Audit is therefore key and the service must plan, conduct and report its work and maintain effective relationships with key stakeholders.

### **Audit Planning**

The audit plan guides the work of the service during the year. The planning principles are:

- Focusing assurance effort on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principal risks; pitching coverage therefore at both strategic and key operational aspects
- Maintaining up to date awareness of the impact of the external and internal environment on control arrangements
- Using a risk assessment methodology to determine priorities for audit coverage based as far as possible on management's view of risk in conjunction with other intelligence sources e.g. corporate risk register, audit risk scores
- Taking account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising in a resource constrained environment there will be situations when not all needs can be met which is where risk

management is key

- Being flexible so that the plan evolves through the year in response to emerging risks and issues
- Providing for the delivery of key commitments, such as work done in support of the External Auditor thus reducing the external audit fee, and to deliver governance and anti-fraud responsibilities
- Including provision for responding to requests for assistance with special investigations, consultancy and other forms of advice from management and sources.

## Conduct of work

The principles of how we conduct our work are:

- Focusing on what is important to the Council and in the ultimate interests of the public of Milton Keynes
- Striving continuously to foster buy-in and engagement with the audit process
- Ensuring findings and facts reported are accurate and informed by a wide evidence base, including requesting information from ex-employees and other stakeholders where appropriate
- Ensuring that risks identified in planning are followed through into audit work
- Ensuring that the right skills and right approaches are in place for individual assignments,
- Suggesting actions that are pragmatic and proportionate to risk, tailored for the best result and take into account the culture, constraints and the cost of controls
- Focusing as a rule on ensuring compliance with existing processes and systems and reducing bureaucracy rather than introducing new layers of control
- Being resolute in challenging; taking account of views, escalating issues and holding our position when appropriate
- Driving the audit process by agreeing deadlines, meeting these on our part, and escalating non-response promptly in order to complete our work
- Having high standards of behaviour at all times.

## Reporting

The reports produced by the service are its key output. The reporting principles are:

- Providing balanced evidence-based reports which recognise both good practice and areas of weakness
- Reporting in a timely, brief, clear and professional manner
- Ensuring that reports clearly set out assurance opinions on the objectives/risks identified in planning work
- Always seeking management's response to reports so that the final report includes a commitment to action
- Sharing reports with senior management and members, identifying key themes and potential future risks so that our work has impact at the highest levels
- Sharing learning with the wider organisation with a view to encouraging best practice across the Council.

To assist the manager/reader in easily identifying the areas that are well managed and the significance of areas of concern, actions, objectives and overall assurance opinions are categorised.

### Actions

Actions are categorised dependent on the risk as follows:




Likelihood H M L	L   M   H	S	I	E
	L   M   H	S	I	E
	L   M   H	S	I	E
		Impact		

Importance	What this means
<b>Essential</b>	Action is imperative to ensure that the objectives for the area under review are met
<b>Important</b>	Requires actions to avoid exposure to significant risks in achieving objectives for the area
<b>Standard</b>	Action recommended to enhance control of improve operational efficiency

### Individual Objective opinions

To easily differentiate between the assurance provided on the different objectives/areas under review and highlight the significance of any issues identified each is separately categorised as follows

Score	What this means with regard to the objective/area
	There are significant weaknesses and risks to the achievement of the objective
	Although the objective is likely to be achieved there are issues which need addressing to provide sufficient confidence
	The Objective has been fully achieved

## Overall Assurance Opinions

Each piece of audit work informs the overall opinion on risk, management and internal control to a greater or lesser extent. Constructing the overall annual opinion is facilitated by giving each individual piece of work an individual assurance opinion. The opinions of reports issued are reported to Audit Committees on a regular basis as per the table below.

Opinion Level	What this means for the area being reviewed:
<b>Good</b>	There is a sound system of control. Although there may be a small number of minor weaknesses there are no major areas of risk
<b>Satisfactory</b>	The control system is basically sound but there are several minor weaknesses or a significant weakness resulting in moderate levels of risk.
<b>Limited</b>	There are very significant weaknesses in key areas in the system of control; there is a risk of loss, fraud, impropriety, damage to reputation or that objectives won't be achieved.
<b>Weak</b>	The control system is absent or has fundamental weaknesses with major areas of risk.

## Follow up

Currently all actions are followed up in accordance with the agreed action implementation dates. Further follow ups are undertaken as required. The Internal Audit Service will review their role in this area with the aim of promoting the action owner to proactively inform Internal Audit and provide evidence when an action has been fully implemented to inform the follow up process. Such an approach emphasises the need for managers to deliver required improvements without prompting, reinforcing their accountabilities.

## QUALITY ASSURANCE

The Audit Services Manager maintains an appropriate Quality Assurance Framework and reports on this annually.

The framework includes:

- An audit manual documenting methods of working
- Supervision and review arrangements
- Customer feedback arrangements
- Quality Standards
- Annual Internal review
- Periodic external reviews
- Performance measures

The Performance measures include

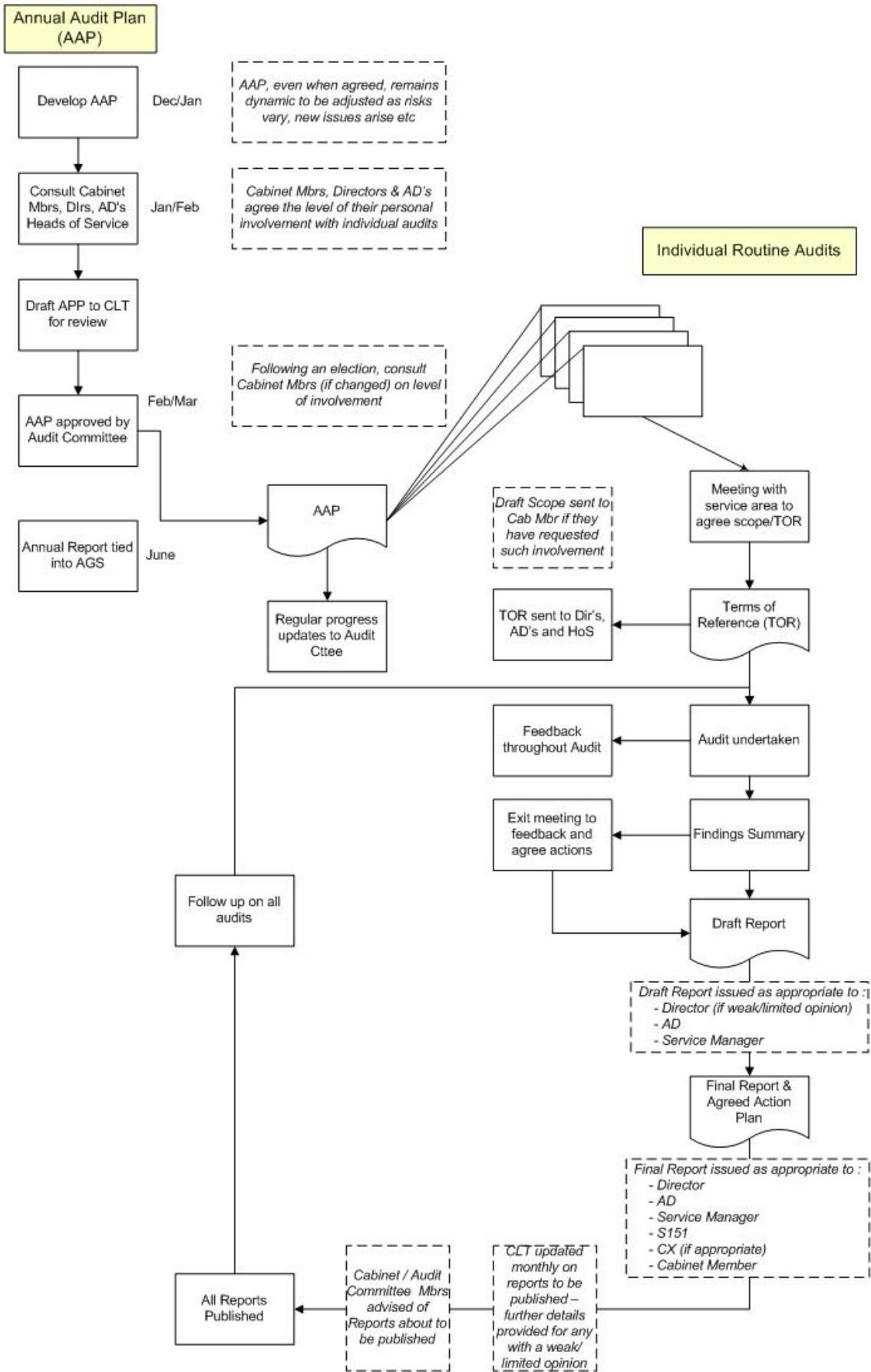
- Proportion of Plan completed, including spread of areas covered
- Proportion of agreed actions implemented
- Proportion of weak/limited opinion reports issued
- Proportion of Weak / Limited Assurance opinion reports that improve to at least satisfactory as at follow up.
- Productive/direct time as a % of total time
- Customer satisfaction levels

The completion of every assignment shall be monitored against:

- end to end time
- days taken to complete
- time between key audit stages e.g. draft issue to final report issue
- customer satisfaction

CLT, the Section 151 Officer, and the Audit Committee receive regular updates on audits completed, the assurance opinions and actions implemented. Weak and limited opinion reports and key actions not implemented are discussed in more detail as appropriate with CLT, the Section151 Officer and / or the Audit Committee.







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