



INTERNAL AUDIT STRATEGY

INTRODUCTION

Internal Audit is a key part of the Council's Corporate Governance arrangements. Put simply governance represents "how the Council directs and controls what it does".

Although Internal Audit, in accordance with proper practice, is not responsible for the Council's systems of internal control, the service is fundamental to ensuring that those control systems adequately protect the Council's interests.

This strategy is drawn from professional best practice and in particular the standards established by CIPFA via their Internal Audit Manual. Internal Audit is a corporate service to the Council and in particular, as part of Strategy, Governance and Performance, supports:

- The s151 officer (Head of Finance) in maintaining prudent financial stewardship
- The Monitoring Officer (Head of Legal) to ensure Council activities are lawful
- Councillors (via Democratic Services) regarding the adequacy of controls independent of the services audited

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 professional standards, supports the s151 officer in maintaining prudent financial stewardship for the Council and supports the Council's objectives and priorities.

The Audit Strategy comprises two parts. The first part deals with how the service will contribute to good corporate governance standards including:

- an indication of the audit service provision arrangements
- a description of how Internal Audit will provide assurance for the annual governance Statement
- an indication of the resources and skills required to deliver the strategy
- an indication of the mix of work to be undertaken, analysed by assurance work and other consultancy and/or fraud-related work and in accordance with a risk-based approach to planning.

The second part of the strategy deals with the more detailed plan of the assignments to be carried out during the period of the plan. This is developed through continuous planning which is based on the ongoing assessments of key and emerging risks

INTERNAL AUDIT STRATEGY – Part I

Service Provision Arrangements

The service will be delivered through an internal service which maintains an ongoing and comprehensive understanding of :

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

Internal Audit is a service that provides significant added value to the Council where audit staff are part of the organisation and thus able to understand and support the organisational objectives and priorities throughout all areas of Council activity.

The service shall aim to deliver a professional audit service to the highest standards by :

- Adopting a **risk based approach**, ensuring Risk Management is adequate, that is reactive to the Councils Risk Register, Corporate Priorities and current events, focusing on strategic and business risks
- As a service being an **agent for change** to continually improve Council services, particularly the service to the final customer
- Ensuring audit staff are suitably **experienced and qualified** for the work they undertake
- Adopting **technological solutions** to improve both audit and Council services
- Becoming a **trail blazing** service promoting best practice and innovation (current examples include system thinking, SAP audit, publication of audit reports, rapidly reactive risk-based plan)
- Achieving this by working in **participation with clients**

Specialist audit services will be developed by the in-house team where possible and financially beneficial, thus providing significant added benefit to the Council.. Specialist services will be procured where it is not possible or financially viable to maintain an internal specialism.

Internal Audit will support the role and responsibilities of the Council's Audit Committee.

Annual Governance Statement

All work of the Internal Audit service will contribute to the Annual Governance Statement. The Annual Audit Report will supplement the Annual Governance Statement as will the Risk Management Annual Report. Both Annual Reports shall be highlighted within the Annual Governance Statement as background documents to read in conjunction with the Annual Governance Statement to provide a properly informed view of corporate governance issues within the Council.

Internal Audit will review the Council's Corporate Governance arrangements annually. This review will provide one of the major sources to inform the Annual Governance Statement.

Internal Audit will review progress on actions identified in the Annual Governance Statement.

The Head of Internal Audit and Risk Management shall advise the Audit Committee on any matter of concern reported (or not reported) within the Annual Governance Statement, Annual Audit Report and Annual Risk Management Report.

Annual Audit Opinion

Each year the Head of Internal Audit and Risk Management will provide his opinion on the effectiveness of the internal control environment. This will be influenced by the individual opinions provided for each piece of audit work undertaken and the progress made by managers in implementing previously agreed recommendations.

Audit work underpinning the opinion will include:

- Risk based system audit reviews
- IT audit
- Audit of projects and programmes
- Audits of fundamental financial systems
- Control advice on new and developing systems
- Investigation of potential cases of fraud and abuse

The opinion shall be supported by sufficient, reliable and relevant evidence.

Resources and Skills required

A resource requirements analysis is undertaken annually to provide an assessment of productive / available days from existing staffing structures. This is compared to the Annual Audit Plan to determine whether adequate resources are available to meet the statutory requirements of the service.

Milton Keynes Council is a large Council providing Unitary services to both urban and rural communities. Since Unitary status in 1997 the Council has maintained an Audit service to deliver audit services across this diverse and financially substantial range of services. The Internal Audit service is sufficiently large to develop and maintain internal specialist technical audit skills. The strategy for each is set out at Annex A to this Strategy.

Work Mix

Internal Audit is risk driven and proactive to the changes in the risks to services and the Council. The audit 'universe' consists of a mix of budget centres, projects, cross directorate or corporate risk and financial audits, where processes such as payments, payroll etc are separately identified for audit.

Audit work will use the Council's Risk Register, officer and member feedback/requests in conjunction with other intelligence sources, to develop Audit Plans aligned to the Council's objectives and priorities, but without losing focus on key financial and corporate governance systems that may not feature heavily within the corporate objectives. The plan will be a live document and will change in line with changes in risks and issues, including allegations of fraud, facing the Council.

Audit work will also focus on the service delivery to the customer from the customer perspective. Effectiveness, efficiency and economy will be considered within this.

The service will provide a full range of Audit services across all Council activities.

There shall be no service or activity of the Council "exempt" from Audit scrutiny, including those delivered by partner organisations.

INTERNAL AUDIT STRATEGY – Part II

Audit Planning

The audit plan is no longer based on a 5 year rolling cycle. It is aligned to the Council's Priorities, risk profile and is proactive to new and emerging risks and issues as they arise. As such each year the plan will focus on what is important to the Council, in relation to risk, council priorities, service delivery, new initiatives and systems. Although a draft plan is provided at the beginning of the year it may move in accordance with changes in the risk profile of the areas highlighted above.

Areas to be audited (the Audit Universe) are identified from various sources including:

- Profit Centre and Cost Centre information
- Service Planning / Medium Term Planning information
- Risk Register data
- Audit Commission guidance
- Consultation with managers/employees/members/portfolio office
- Council Priorities

Over time, the audit plan will become more aligned to the risk register and Corporate priorities / objectives with an increased focus on strategic risks, than the Council structure. This transition can only occur as the risk process matures and the risk register becomes robust. Risks contained within the risk register will be audited on the basis of their likelihood, impact and weighting. The focus of the audits will be the testing of the systems and controls put in place by the nominated risk owner.

The Annual Audit Plan will be discussed with all key clients and submitted for formal approval to the Audit Committee every year.

As a service to the s151 Officer the key financial systems will be audited using a systems based approach with the addition of a high level assessment of any other risks that impinge on the area. Key financial systems are identified for annual review under the Managed Audit arrangement with the Audit Commission in consultation with the s151 Officer.

School audits will continue on a cyclical basis, but will be developed further to concentrate more on the strategic risks facing schools. Assessments will be undertaken to determine compliance with the Financial Management Standard in Schools. The findings from the assessments will help inform the overall opinion resulting from the audit work.

In accordance with best practice Audit Plans will include separate provision for Fraud investigations, Consultancy services, follow up audits and other specialist audit services.

The plan is prepared on the basis of audit need, and is then compared to existing audit resources to identify whether any shortfalls exist. Any shortfalls that cannot be mitigated internally are sourced externally or brought to the specific attention of the Chief Executive and Audit Committee.

Significant Local and National Issues and Risks

The annual audit plan will be sufficiently flexible to allow the Head of Internal Audit and Risk Management and Audit Services Manager to direct internal audit resources as required so that new and revised local and national issues and risks can be appropriately reviewed.

The Head of Internal Audit and Risk Management and Audit Services Manager will keep up-to-date with such issues from:

- Cabinet, Portfolio holder and Committee reports
- Corporate Management Team and Directorate Management Team meetings and minutes
- Local, national and professional publications
- Professional reference materials /sites
- Active membership of Inter Authority Internal Audit groups
- Active membership of CIPFA's Better Governance Forum

Monitoring

The delivery of the Annual Audit Plan will be monitored on the basis of performance measures established through the Councils Medium Term Planning process. These shall include :

- Proportion of Plan completed, including spread of areas covered
- Proportion of agreed actions actually implemented
- Cost of service
- Customer Satisfaction
- An annual benchmarking exercise shall provide the basis for a comprehensive review of all aspects of the service
- External reviews and/or self assessments

CLT and the Audit Committee shall receive monthly summaries and/or quarterly reports on the work of Internal Audit and Risk Management and including :

- Work undertaken
- Key recommendations / Risk Management actions agreed but not implemented
- Key issues arising that require attention
- Issues highlighted that may require reporting within the Statement of Internal Control

The quality of individual Audit assignments shall also be monitored (and included within the periodic / annual Audit Report) including :

- Each audit assignment will examine inherent and residual risks as well as confidence levels in controls which will determine the expected frequency and depth of audit analysis for each area.
- Every assignment will only be started after consultation with the client , except where circumstances dictate otherwise e.g. fraud investigations or where time is of the essence.
- Clients will be advised of start dates and estimated time for completion of each audit assignment
- 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

'What have we learnt?' and 'how we can do it better?' will be considered at the end of every audit.

- Every assignment shall be reviewed by Audit management for compliance to professional standards adopted and Council requirements.

Annex A - Specialist Audit Services

IT Audit

Where possible IT audit skills will be developed and maintained within the service in the area of IT Audit. However if the technical skills required are not internally available resources will be procured as necessary.

Contract / Procurement Audit

This specialism will be developed and maintained within the service. The nature of this specialist service occasionally requires some external advice to supplement internal opinion given the diversity within this area (ie capital project to build a school contains many similar but also some very different technical aspects to, say, a regional theatre).

Project Audit

More of the Council's work is now organised into projects and programmes. Internal Audit will use internal resources to provide assurance on project management and value for money. Training will be provided to other audit staff to further increase capacity in this area.

Fraud / Investigations

This specialism will be developed and maintained within the service. This will be strategically delivered via both Internal Audit and the Corporate Anti Fraud Team. Skills will be developed and formal qualifications sought for staff in this area.

Value for Money Audit

This specialism will be developed and maintained within the service. VFM audit will be delivered through a combination of :

- (a) a number of specific, designated and resourced VFM Audits
- (b) development of general VFM skills to be applied through every audit

Consultancy

Internal Audit will provide an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance. The service applies the professional skills of internal audit through a systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the Council's objectives, and through recommendations for improvement. Such consultancy work contributes to the opinion which internal audit provides on risk management, control and governance.

Consultancy work may include, but is not limited to:

- provision of advice or specific pieces of work on request,
- involvement in projects as resources allow
- incorporated within routine audit work
- assistance with lean/systems thinking interventions
- system development work to ensure controls are built into the systems
- facilitation of workshops
- training