

### INTERNAL AUDIT STRATEGY 2017-20

The mission of Internal Audit is to, 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'.

[Public Sector Internal Audit Standards 2016]

This strategy sets out how Internal Audit's mission and core principles\* will be achieved over the medium term in the context of further challenges which local government is facing. As part of the Council's continuing development, four leadership themes have been identified and these have been incorporated into this strategy, as underlined below. The Chief Internal Auditor is responsible for turning the Internal Audit's Strategy into action.

The elements of the strategy cover:

- Strategy into action and accountability (Paragraphs 1.1 – 1.6)
- Fulfilling our Terms of Reference for Risk Based Internal Auditing (2.1 – 2.2)
- Commerciality and Business Like for Delivery of Work (3.1 – 3.3)
- Code of Ethics (4)
- Raising our profile (5)
- Data Analytics and evidence based to Add Value (6)
- Collaboration and Influencing through Managing resources (7)
- Services to meet the strategy (8)

The Internal Audit Strategy was last approved at the January 2016 Audit Committee meeting.

\*These are new areas in the PSIAS 2016

#### **1. Strategy into action and accountability**

1.1 As part of the Finance and Commercial Services Department, Internal Audit will ensure:

- the financial management, risk management and governance arrangements of the Council are adequate and effective
- the organisation works efficiently and effectively to develop and deliver services that represent good value for money, deliver the Council's priorities for Moving Norfolk Forward and improves outcomes for Norfolk people
- Compliance with relevant Public Sector Internal Audit Standards.

1.2 Internal Audit delivery and reporting should be:

- Outcome focussed ensuring the Council is better off
- Linked to strategic priorities
- Focussed on business critical services and processes
- Identifying areas where failure places the organisation in jeopardy
- Linked to financial and performance metrics
- Responding to the key risks of the Council

1.3 There needs to be a consistent and shared understanding of internal control and responsibilities. What are the internal controls, who is responsible for them, what are they actively doing to manage them and what measures are in place to hold people to account.

1.4 Corporately 'Moving Norfolk Forward' provides council-wide priorities, and these have been developed into some clear outcomes and measures by officers and members. The Council has a lot of data, performance information and risk information that will enable it to manage performance and help define future service delivery. Internal Audit contributes to further developing a culture that means we can have open and challenging performance conversations throughout the organisation – so that people are more aware of our priorities and targets and their responsibilities for delivering them

1.5 Internal to the team the key strategic priorities are:

- Complementary management of the Internal Audit, Risk Management, Anti-Fraud & Corruption and Whistleblowing functions
- Implementing a protocol between External and Internal Audit
- Recruitment and retention of appropriately qualified and experienced auditors
- A successful independent review, by CIPFA, of the application of the PSIAS

1.6 The success of this will be evidenced by:

- Delivery of the outcomes that Internal Audit are aiming to improve
- Clear objectives that describe what needs to be done and what success looks like
- Clear accountability, with established and effective escalation of problems
- A balanced set of performance indicators that measure the right things
- Joined up information – so we know where the key risks are, what assurances are already in place and can be relied upon, and how much work internal audit need to deliver to provide an annual audit opinion and what it will cost
- Clear reporting – so Members, staff and stakeholders are clear on how we are doing

- An improved performance management culture, awareness, challenge and wider perception and understanding of performance

## **5 Fulfilling our Terms of Reference for Risk Based Internal Auditing.**

5.2 Our strategy fully meets and supports the requirements of our Internal Audit Terms of Reference which has been approved by the Audit Committee.

5.3 Our risk based internal auditing approach is aligned to the Corporate Risk Register and demonstrates the correlation of audit topics in the proposed audit plan to the corporate risk register. This includes sources of planned assurance, whether via Internal Audit, the Risk Management Officer or External Inspection (Chart 1 and 2).

5.4 **Our success is measured through** the review of the outcomes from audits and the difference we make and how the service department is better off as reported in the Chief Internal Auditor's Annual Internal Audit Report. Progress with dealing with Corporate High Priority findings are reported quarterly to the Corporate Leadership Team to ensure controls are strengthened in a timely manner.

## **6 Commerciality and Business Like for Delivery of Work**

3.1 We aim to deliver the right work, of the right quality, to the right people at the right time and for the right price, which maximises appropriate revenue potential.

3.2 We support and promote the Council's Moving Norfolk Forward priorities, whilst considering changes resulting from the Council's journey of improving efficiency and modernisation and radically re-shaping its capacity while taking out costs.

Our success is measured through:

- Feedback that our audits add value
- Growth in the delivery of traded audits.

3.3 We plan, organise and control the delivery of all our services to professional standards (UKPSIAS). Delivering sound and timely advice that is fair and flexible.

- We aim to create and communicate high quality information about the effective operation of management's controls over risks.

- Our annual audit planning ensures the key areas required by UK PSIAS and the key areas requiring assurance and coverage within the Annual Governance Statement are included and these are matched to our resources in consultation with the Executive Director of Finance, Executive Directors and Members before approval by the Audit Committee.
- We aim to increase the take up of our traded audit services offering to schools, both maintained and academies. Our strategy continues to be to reduce the number of funded audits to schools, allowing our reduced audit resource to be directed elsewhere, but to provide assurances to schools and Children's Services through the growth of our traded work.
- Changes to the approved Internal Audit Plan are also agreed as above and notified to the Audit Committee throughout the year.
- We use our combined experience and knowledge to provide helpful and practical insight and recommendations. We are a catalyst for improving the Council's effectiveness and efficiency based on analysis and assessments of data and business processes.
- Audit work is reviewed to ensure that it is sound, meaning, evidenced based, independent, technically compliant, risk based, timely, and can demonstrate how services are better off through having an audit. We deliver all our services in compliance with the UKPSIAS. We employ quality controls, quality monitoring and quality reviews of our work. Our Internal Audit Terms of Reference, Code of Ethics and this Strategy meets the UKPSIAS.
- We identify audit resources (staff or contractors) with the appropriate skills to deliver the audit service, which meets required professional standards. We are committed to integrity, accountability and high customer care standards. This can involve the use of internal and/or external resources.
- All members of the team above the Senior Auditor level are professionally qualified. All Auditors and Senior Auditors are required to be Association of Accounting Technicians (AAT) or part IIA or CAAB qualified. We provide assistance with training and continuing professional development appropriately for all members of the team.
- We are responding to the ongoing difficulties faced in recruiting the 'right mix of experienced and qualified staff' by developing a 'mixed economy' resource delivery approach that enables us greater resilience and flexibility, especially for unplanned responsive work. The mixed economy consists of experienced in-house staff and call off arrangements with approved Contractors and temporary staff.
- The Authority and the audit team subscribe to professional support forums.
- The Chief Internal Auditor is a member of the County Chief Internal Auditor Network (CCAN), the Home Counties Chief Internal Auditor Group (HCCIAG) and the Norfolk Chief Internal Auditor Group in order to utilise the peer support that these groups provide.

- We have a Quality Assurance Improvement Plan (QAIP) as required by the Standard.

**Our success is measured through meeting the Standards and the delivery of the annual Internal Audit Plan within planned resources as reported in the Chief Internal Auditor's Annual Internal Audit Report and in quarterly updates to the Audit Committee**

#### **4. Code of Ethics.**

- 4.1 We will actively promote professional values, manage threats and report on compliance with the standard. Our Internal Code has been approved by the Audit Committee.

**Our success is measured through the Chief Internal Auditor's Annual Internal Audit Report.**

#### **5. Raising our profile.**

Our strategy is to strive to raise the profile of the team, as a trusted advisor, in a positive way at all times. The ways that we do this include:

- Professional advice and support to Members, Executive Directors and the Executive Director of Finance.
- Delivery of our principal services including quality audit reports (draft and final) and Committee reports.
- Attending committee, departmental management team meetings and working groups
- Contributing to Finance's publications
- Actively promoting our traded services to maintained schools and academies.
- Issuing Client Satisfaction Questionnaires for all work that we undertake and analysing and understanding the responses and acting on the messages contained within such questionnaires.
- Maintaining good client relations and to this end
  - We maintain web pages on the Council's websites to explain the role of the internal audit team and provide links to relevant information and advice.
  - There is provision within the audit plan for advice and assistance with respect to internal control for all our clients.
  - Detailed terms of reference are prepared for each audit based on close liaison with clients.
- We have a Pledge and Remedy statement
- Active and full participation in corporate initiatives.

**Our success is measured through the feedback both formally and informally and requests for schools traded services, additional or ad hoc audit work and advice from our "auditees", the Executive Director of Finance, Chief Officers and the Audit Committee.**

## **6 Data Analytics and evidence based to Add Value**

Our strategy is to support good value for money in all we do.

Our work

- Aims to bring **Critical Thinking** to our audit approach and is designed to ensure service departments are better off from our audits
- is designed to help in the promotion of continuous performance and internal control improvement through the issue of reports containing recommendations and action plans
- helps to ensure that the Council delivers on Moving Norfolk Forward
- supports effective Financial Management
- helps to prevent fraud and corruption, assists in the safeguarding of assets and includes to undertake investigations where requested to do so by Executive Directors
- generally acts as a deterrent against fraud and corruption; and
- includes participation in benchmarking to measure our performance and value for money against peer organisations.

**Our success is measured through the review of the outcomes from audits and the difference we make and how the service department is better off as reported in the Chief Internal Auditor's Annual Internal Audit Report.**

## **7. Collaboration and Influencing through Managing resources**

- Our approach is to continuously review our financial budget and any required savings to ensure that we remain in control and that there are no overspends. We take every opportunity to minimise our spend whilst maintaining or improving our service.
- We plan, record and monitor the time spent on all audit activities (audit and non-audit) to manage our staffing resources efficiently and economically.
- Our significant budget spend is on staffing resource. We have a recruitment strategy that sets out the recruitment standards to ensure all staff have the appropriate qualifications and experience. We have developed a mixed economy approach using outsourcing to fill any gaps in audit coverage which gives us greater flexibility and resilience.
- Our success in managing our resources will be measured against those targets set for NAS which form part of the Finance targets
- Our approach to additional non-statutory work is generally to accept such work on the basis of full cost recovery with the proviso that such work is not excessive. Such an approach therefore allows us to recover some of our overheads. Our traded schools work is delivered on the basis of full cost recovery.

**Our success is measured through the delivery of the internal audit plan, whilst remaining within our budget allocation and delivering the corporate budgetary targets when required.**

## **8. Services to meet the strategy**

The table below sets out the services we deliver and the particular strategies for the delivery of these services:

| <b>Service</b>  | <b>Particular Audit strategy for delivery/Measures of Success</b>  |
|---|--|
| Reporting to the Audit Committee, quarterly and annually.   | Production and delivery of reports to a professional standard.<br>Attendance at all meetings by the appropriate officers.  |
| Facilitation of the delivery of the Annual Governance Statements to the Audit Committee and the Joint Committees.   | Manage the process for the delivery of the Annual Governance Statement in particular ensuring adequate and timely consultation with appropriate senior officers and members.   |
| Provision of assurance to the Executive Director of Finance, the Section 151 Officer, with respect to the systems of governance/internal control and risk management throughout the authority and the Joint Committees. | <p>Consider all aspects of governance, internal control and risk management throughout the authority or joint committee and arrive at a reasoned opinion.</p> <p>Consider all risks included in the Corporate Risk Register as part of the risk based internal audit approach.</p> <p>Demonstrate how corporate risks in the Corporate Risk Register are considered and covered in the annual audit plan and the sources of assurance available to ensure all corporate risks are adequately considered and have sufficient internal audit coverage.</p> <p>Report this to the Executive Director of Finance (Interim) and the appropriate committees.</p> |
| Undertaking audit work to support the opinion; this work produces draft and final reports which include recommendations for improvements in internal controls   | <p>In each audit carried out:</p> <p>Our audit findings are categorised into high, medium and low priority</p> <p>Action plans are agreed with management to mitigate risks for</p>  |

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| and an action plan. This work also includes a deterrence element generally and “managed audit work” for the External Auditor with respect to key systems. | <p>medium and high priority findings</p> <p>Any findings of low priority are reported on as discussion points within audit reports</p> <p>We assess the findings to form an overall opinion of ‘Acceptable’ or ‘Key issues that need to be addressed’.</p> <p>All opinions are moderated by an Audit Opinion Group.</p> <p>We assess the corporate significance of the audit</p> |
| Provision of advice and assistance with respect to Internal Control to County Leadership Team (CLT) and other Senior Officers.                            | <p>Our annual resource plan provide for general liaison with CLT and other Senior Officers particularly in the formulation of the audit plan.</p> <p>We provide advice on new systems and answers queries in respect of internal control.</p>  |
| Provision of advice and assistance with respect to Anti Fraud and Corruption particularly to the Head of Law.   | <p>We review, with the Head of Law, the Anti Fraud and Corruption Strategy on an annual basis and update it as necessary. The Strategy has been updated and is presented on the Audit Committee agenda for this January meeting.</p> <p>A performance report with respect to Anti Fraud and Corruption is made to the Audit Committee half-yearly.</p>                           |



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| Provision of an Internal Audit Service to Schools.  | <p>The strategy for auditing schools from April 2012 has been agreed with the Audit Committee and is incorporated into the 2017-18 audit plan.</p> <p>Our proposals for marketing internal audit services to maintained schools and academies were included in a report to the January 2012 Audit Committee.</p> |
| Provision to undertake investigations where requested to do so by Chief Officers or the Audit Committee Chairman. | <p>To deliver professional and objective evidence based reports to assist with effective and efficient disciplinary or criminal proceedings. Our staffing strategy includes an investigative auditor role.</p>   |
| Provision of an Internal Audit Service to the Norfolk Pension Fund.   | <p>We provide an internal audit service to the Norfolk Pension Fund on a risk assessed basis.</p> <p>We provide these services on a full cost recovery basis which enables us to absorb the cost of some of our senior management and other overheads.</p>   |
| Provision of advice and assistance to the Eastern Inshore Fisheries and Conservation Authority.                   | <p>Provision of advice and assistance with respect to the Annual Governance Statements and other internal control issues.</p> <p>We provide this service on a full cost recovery basis which enables us to absorb the cost of some of our senior management and other overheads.</p>                             |
| Undertaking Grant Certification work particularly with respect to EU grants.                                      | <p>We provide this service on the required charges basis which enables us to absorb the cost of some of our senior management and other overheads.</p>   |
| Setting up and delivering the Audit Authority function for the France-Chanel-England INTERREG 5a programme        | <p>This work supports the Council's operation of the Managing Authority and Certifying Authority giving assurance on their controls and is externally funded.</p>  |

## 9. Reporting the success of the strategy

The results of the strategy are reported to the Audit Committee in the Chief Internal Auditor's reports annually and in summary each quarter. The Executive Director of Finance, Chief Officers and the Audit Committee provide scrutiny and challenge to this strategy.

## **INTERNAL AUDIT STRATEGY - TECHNICAL NOTE:**

The Internal Audit Team provides value for all our stakeholders and to ensure that for those services we have audited, that the services are better off through having had an audit. There are three ways that we achieve this by providing:

- Assurance,
- Objectivity; and
- Insight.

The assurance is provided through three elements:

- Governance,
- Internal Control; and
- Risk Management.

Our objectivity is provided by our:

- Integrity,
- Accountability; and
- Independence.

The insight we deliver is through our:

- Analysis and 'Critical Thinking' of what makes the Council 'Better off',
- Assessment; and
- Action plans and High priority Findings reporting.

## **Nature of Work**

The Public Sector Internal Audit Standards (UKPSIAS) state the internal audit activity must evaluate and contribute to the improvement of governance, risk arrangement and control processes using a systematic and disciplined approach. The main requirements are stated below.

- Governance

We are required to assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation

- Ensuring effective organisational performance management and accountability
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

We are also required to:

- Evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities
- Assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

- Risk Management

We are required to evaluate the effectiveness and contribute to the improvement of the risk management process. This includes an assessment that:

- Organisational objectives support and align with the organisation's priorities
- Significant risks are identified and assessed
- Appropriate risk responses are selected that aligns risks with the organisation's risk appetite, and
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

We are also required to evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives
- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations and programmes
- Safeguarding of assets
- Compliance with laws, regulations, policies, procedures and contracts.
- Potential for the occurrence of fraud and how the Council manages fraud risk

- Control

We must assist the authority in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

We are also required to evaluate the adequacy and effectiveness of controls responding to risks stated above.

### INTERNAL AUDIT APPROACH 2017-18

#### 1 Background

- 1.1 The Approach set out in this appendix translates the Internal Audit Strategy 2017-20 (**Appendix A**) into the planned work and aligns budget and workforce planning, explaining how and why Internal Audit operates.
- 1.2 The UK Public Sector Internal Audit Standard (the Standard) came into force on 1<sup>st</sup> April 2013 and was refreshed in April 2016 and CIPFA's guidance the LAGN on the Standard was also published in April 2013. This Standard and the Guidance replace the CIPFA Code of Practice for Internal Audit.

#### 2 Regulatory Requirements

- 2.1 The Standard (1.2) requires that the 'Head of Internal Audit' for Norfolk, the Chief Internal Auditor, should prepare a risk based internal audit plan designed to implement an Internal Audit Strategy. The plan should 'take account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes'. The Chief Internal Auditor has a duty to promote good governance, share best practices and review the internal controls within the authority.
- 2.2 CIPFA have published a statement on the 'Role of the Head of Internal Audit' and the Local Government version of that document includes; "the Chief Internal Auditor must lead and direct an internal audit service that is resourced to be fit for purpose". It goes on to say, "the resources available must be proportionate to the size, complexity and risk profile of the authority and must be enough for the Chief Internal Auditor to give a reliable opinion on the authority's control environment. Responsibility for ensuring that an effective and appropriately resourced internal audit service is in place rests with the authority". As Section 151 Officer, the Executive Director of Finance has a duty to consider the adequacy of the internal audit coverage. The Executive Director of Finance relationship with the Chief Internal Auditor is imperative in ensuring the value and quality of the systems within internal control.

#### 3 Financial and organisational changes

- 3.1 The Managing Directors plan that went to P&R Committee in September 2015 proposed a three year strategy for delivering the Council's priorities and statutory duties with 75% to 85% of current resources, highlighting the still significant savings to be made within the Council. NAS continue to review the approach taken to Internal Audit work, the resources and our methodology to ensure 'Better ways of Working' are adopted to ensure adequate and effective audit coverage, albeit within a reduced internal audit resources.

**3.2** The minimum coverage required for internal audit comprises both the 'Managed Audit' work, to support our external auditor, as well as the other internal work needed to comply with the Accounts and Audit (England) Regulations 2015 and to form an opinion with respect to the system of internal control, governance and risk management.

**3.3** This annual plan, split into two half yearly plans will be flexible to cope with the inevitable changes that are required throughout the year. Allocating the plan into two halves will help ensure each half is current, relevant and reflects the changing environment. Any adjustments needing to be made to the plan will be reported to the Audit Committee in the quarterly reports with a formal review at the half year.

#### **4 Approach to the Audit Plan for 2017-18**

**4.1** The internal Audit plan is designed to give sufficient coverage to form an overall audit opinion with respect to the systems of internal control, governance and risk management. The internal audit plan draws from the Managing Director's Performance monitoring report (P&R Committee October 2015) in that:

- It focusses on the right things and supports delivering the Council's priorities and managing its vital signs and key risks
- It will be able to demonstrate how services within the Council are better off through having had an audit
- It sets accurate baselines in that it is clear in the number of audits to be delivered within each key area to support the annual audit opinion and the Annual Governance Statement
- The plan strengthens accountability and ownership by focussing on key areas of risk within the Council

**4.2** The key messages in this approach are:

- The audit plan focusses on the right things and only the 'essential' audit work, which our risk and needs assessment, undertaken with departments, identifies, will be met from the available resources,
- understanding what audit work will not feature in the plan and accepting the risks arising from that.

**4.3** The Annual Internal Audit plan is kept under review through regular assessment by the Chief Internal Auditor, including assessing performance with delivery, and amended as appropriate to reflect changing priorities and emerging risks which are report to the Audit Committee.

#### **5 Scoping for 2017-18**

- 5.1** The total requirement for the full services we deliver, are presented in our Internal Audit Strategy 2017-19 (**Appendix A**). The Chairman and Vice Chairman of the Audit Committee will be consulted with respect to proposed changes during the year.
- 5.2** With our existing audit team, a mix of permanent and temporary staff, and reduced specialist contractor audit days, we propose that there should be 768 audit opinion days delivered days.
- 5.3** The audit plan will be based on an audit universe of both essential and desirable audits. These are risk assessed in consultation with Chief Officers. Essential audits will be defined as those with the highest risk and the detailed plan developed to match the resources available. It is expected that only audits deemed 'essential' will be included in the plan. The work to support the provision of the opinion to the Executive Director of Finance contains:
- Discretionary audits agreed with Executive Directors or County Leadership Team
  - Audit work supporting the external auditors
  - Traded Schools audit work; and
  - Specialist ICT and Health and Safety work.
- 5.4** The audit work to support the external auditor's assurance is fixed in nature and timing. We are consulting our external auditor to confirm their requirements for assurance work from us.
- 5.5** We will continue to engage specialist auditors for complex and highly technical audits within the cash limited budget (£21,000). These are currently identified as ICT and Health and Safety. Regarding ICT a mini competition exercise we will be held to replace PWC. Other experts will be procured as and when required.
- 5.6** Benchmarking is difficult in times where there are significant changes taking place. The audit resources are however still considered to be comparable and reasonable for the size of the authority. On an annual basis using CIPFA guidance, relevant data is benchmarked against the "most similar authorities" within the UK to ensure the comparison is meaningful. Data benchmarked includes auditor qualifications, chargeable audit days and cost per auditor. The CIPFA questionnaire is completed after data is compiled and after a detailed analysis the department can assess how efficient and cost effective it is against other similar authorities.
- 5.7** We continue to develop customer care and as part of this we ensure that our quality control and assurance procedures are met and are reviewed and updated as necessary.
- 5.8** The Audit Committee promote the value and quality of the systems of internal audit and support the Executive Director of Finance in maintaining appropriate resources and direction of the audit work. The Chairman's Half Yearly report explains how this is achieved.

**5.9** The proposed 2017-18 Internal Audit Plan is presented at **Appendix E**.

## **6 Conclusions**

**6.1** There are requirements for an adequate and effective internal audit function to meet statutory, best practice and aspirational requirements, including the external auditor's value for money opinion.

**6.2** The Internal Audit Approach translates the strategy into planned work. The audit days to support the strategy for 2017-18, of 768 audit opinion days is considered sufficient to support an opinion on the Council's control environment, taking into account the Council's Risk Management, performance management and other assurance procedures. This follows a trend in significant resource reduction being managed since 2008-09.

**6.3** We will continue to seek and promote greater value for money in our audit delivery while maintaining sufficient coverage and quality standards.

**6.4** The Audit Committee have a key role in promoting the value and quality of the systems of internal audit and in supporting the Executive Director of Finance in maintaining appropriate resources and direction of the audit work.

## **7 Resource Implications**

**7.1** Internal audit vacancies will continue to be managed flexibly with a mix of temporary and permanent staff under the corporate vacancy management policy. Resourcing needs identified from the rolling internal audit planning will be reviewed on an ongoing basis and reported to the Committee.