

FALKIRK COUNCIL

Subject: INTERNAL AUDIT STRATEGY
Meeting: AUDIT COMMITTEE
Date: 03 April 2009
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 This Internal Audit Strategy has been developed to meet the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code). The Code requires the Internal Audit Manager to produce an Audit Strategy setting out how the Internal Audit service will be delivered and developed in accordance with the terms of reference set out in the Council's Financial Regulations. The content of this Strategy will be kept under review, and presented for consideration to Members of the Audit Committee periodically.

2. BACKGROUND

- 2.1 Falkirk Council's Internal Audit Section is part of Treasury and Investment Division, which is in turn part of Finance Services. The Section provides Internal Audit coverage to all Council Services and to the Central Scotland Fire and Rescue Service.
- 2.2 The aim of the Internal Audit function is to provide an independent and objective opinion to the Council on the risk and control environment, comprising risk management, governance and control, by evaluating its effectiveness in achieving the Council's objectives. Internal Audit objectively examines, evaluates and reports on the adequacy of the framework of internal controls as a contribution to the proper, economic, efficient and effective use of resources, and the achievement of Best Value.
- 2.3 This Strategy aims to provide Members with a clear statement of the strategic approach to be adopted by Internal Audit in providing an overall opinion each year on Falkirk Council's risk and control environment to support the preparation of the Annual Governance Statement. The Strategy also aims to facilitate:
- an agreed basis for the Internal Audit of Falkirk Council's risk management, governance and control arrangements through annual audit plans, giving priority to corporate and Service risks and objectives;

- improvement of Falkirk Council's risk and control environment by providing management with recommendations arising from Internal Audit work;
- effective co-operation with external auditors and other review bodies with a view to avoiding duplication and making the review functions more efficient and cost-effective; and
- the provision of both assurance and consultancy services by Internal Audit.

3. AUDIT PLANS

- 3.1 Internal Audit will develop an Annual Audit Plan covering the twelve month period from 01 April each year to support this Strategy. The Annual Audit Plan provides brief details of individual assignments to be carried out in this period, and will be presented to the Audit Committee for consideration at its March meeting each year.
- 3.2 It is Internal Audit's intention that the Corporate Risk Register and each of the individual Service Risk Management Plans (which record the risks that threaten the achievement of Services' business objectives) form the basis for the formulation of the Annual Audit Plan. We will, however, also draw on information contained in our Audit Needs Assessment model to assess key activities that might not feature in output from the Corporate, or Services', risk management process, eg medium and lower level risks that Internal Audit is obliged to cover to enable us to provide a balanced assurance.

4. PROCESS FOR PROVIDING ASSURANCE

- 4.1 Provision of our Annual Assurance Report will largely be based on a range of risk-based reviews, including coverage of:
- the arrangements for establishing and embedding effective risk management across Falkirk Council, including the processes for determining the high level risks and for cascading within each Service. Also, the arrangements for the promotion of risk awareness, monitoring, training and guidance;
 - corporate governance arrangements;
 - the routine business processes and central systems that are underpinned by the management of the risks identified in Service Risk Management Plans and that are material to the achievement of key Service objectives; and
 - non-key processes which will also be included to gain assurance that material adverse impacts are not arising.

- 4.2 Internal Audit will also draw on information obtained from previous audit reviews (including fraud and/or special investigations) and from consultancy/advice work.
- 4.3 Additionally, Internal Audit will take account of information obtained through regular contact with Finance colleagues and auditees, and from other independent review activities, eg Best Value Service Reviews, external audit activity, and the work of other external inspection agencies. Internal Audit has regular dialogue with external auditors to share information and to avoid duplication of audit coverage.

5. AUDIT TECHNIQUES AND APPROACH

- 5.1 In order to provide an Annual Assurance Report that is soundly based, and to provide a constructive value adding service, a range of audit approaches will be used. These include:
- Risk Based Audit: focussing on the key business risks identified jointly between management and Internal Audit prior to the commencement of the review. The majority of the reviews carried out by Internal Audit will be undertaken on this basis;
 - Systems Audit: a comprehensive review of business systems and controls in which systems and risks are documented, and controls are identified, evaluated and tested;
 - Compliance Audit: where there is pre-existing confidence that controls are well designed, but effective operation of the controls is a material issue. Testing is directed at establishing whether controls are operating effectively;
 - Systems Development Review: involving a phased review of developing plans and designs for new systems aimed at identifying potential risks and weaknesses in system development controls. Likely to be undertaken on an on-going consultancy basis rather than as a standalone audit review;
 - Special Reviews: commissioned by management in response to specific concerns or circumstances;
 - Follow-up Reviews: directed at establishing the extent to which agreed recommendations have been considered and implemented;
 - Consultancy/Advice: including commenting on draft procedural guidance and responding to management requests for advice on risk and control issues.

- 5.2 Internal Audit liaise with colleagues in other Local Authorities and at groups such as the Scottish Local Authorities Chief Internal Auditors Group, with a view to developing and enhancing our approach. Close contact also maintained with relevant professional bodies, such as the Institute of Internal Auditors (IIA).

6. AUDIT REPORTING ARRANGEMENTS

- 6.1 Matters arising from each Internal Audit review will be reported to management at the conclusion of the assignment in the form of a draft audit report. Each audit report will provide a statement on the level of assurance that can be provided on the systems of risk management, governance and control, as well as an action plan setting out specific audit recommendations. The overall assurance will be provided in line with the definitions set out at Appendix 1. The report and completed action plan will form the final record of each audit, and the basis for subsequent follow-up work by Internal Audit to assess the extent to which agreed recommendations have been implemented.
- 6.2 Reports will be provided to the Audit Committee at its March and November meetings detailing progress in completing each Annual Audit Plan and highlighting any key findings or themes emerging from work carried out.
- 6.3 Finally, Internal Audit will produce an Annual Assurance Report, for consideration by Members at the May meeting of the Audit Committee, providing an opinion on the overall adequacy and effectiveness of the Council's risk and control environment. This report will also include a summary of work undertaken including key findings and themes, and a comparison of work completed against work planned.

7. RESOURCES INCLUDING STAFFING

- 7.1 In order to deliver an effective service it is necessary for Internal Audit to be appropriately staffed in terms of numbers, grades, qualifications, training and experience. An organisation chart setting out the structure and staffing of Internal Audit is included at Appendix 2. All staff are encouraged to undertake training and continuing professional development (CPD) to ensure that skills and knowledge remain current and to meet the CPD requirements of professional bodies such as the IIA, CIPFA (Chartered Institute of Public Finance and Accountancy), and ISACA (Information Systems Audit and Control Association).
- 7.2 Audit resources are allocated between direct audit work, contingencies/irregularities (including the provision of ad hoc advice) and the follow-up of previous years' recommendations. Details of the days allocated to each will be set out in the Annual Audit Plan.

8. QUALITY ASSURANCE

- 8.1 Internal Audit is required to have due regard to the standards prescribed in the Code, and to take account of the IIA International Professional Practices Framework. Regular feedback from auditees on the conduct of audit assignments is sought through the issue of customer satisfaction questionnaires, with appropriate action taken based on the results of this exercise.
- 8.2 Internal Audit's work is also subject to external scrutiny by Audit Scotland.
- 8.3 Internally, we operate a rigorous quality review process with audit working papers and all main audit reports being subject to clearance by the Internal Audit Manager. Standard audit documentation is used, underpinned by our own Internal Audit Manual.
- 8.4 Internal Audit also monitor performance against a set of 5 key performance indicators:
- Complete 85% of the Internal Audit Programme;
 - Have 95% of Internal Audit Recommendations Accepted;
 - Spend 75% of Internal Audit Time on Direct Audit Work;
 - Issue 75% of Draft Reports Within 3 Weeks of Completion of Fieldwork; and
 - Complete 75% of Main Audits Within Budget.
- 8.5 Performance against each of these indicators is included in progress reports to the March and November meetings of the Audit Committee.
- 8.6 Internal Audit is regularly examining ways to improve the quality of Internal Audit services, for example, through CPD and greater use of IT products including audit retrieval and analysis software. We will continue to explore ways in which the efficiency and effectiveness of the Section can be enhanced.

9. RECOMMENDATION

- 9.1 Members are invited to note and comment on the Internal Audit Strategy.**

.....

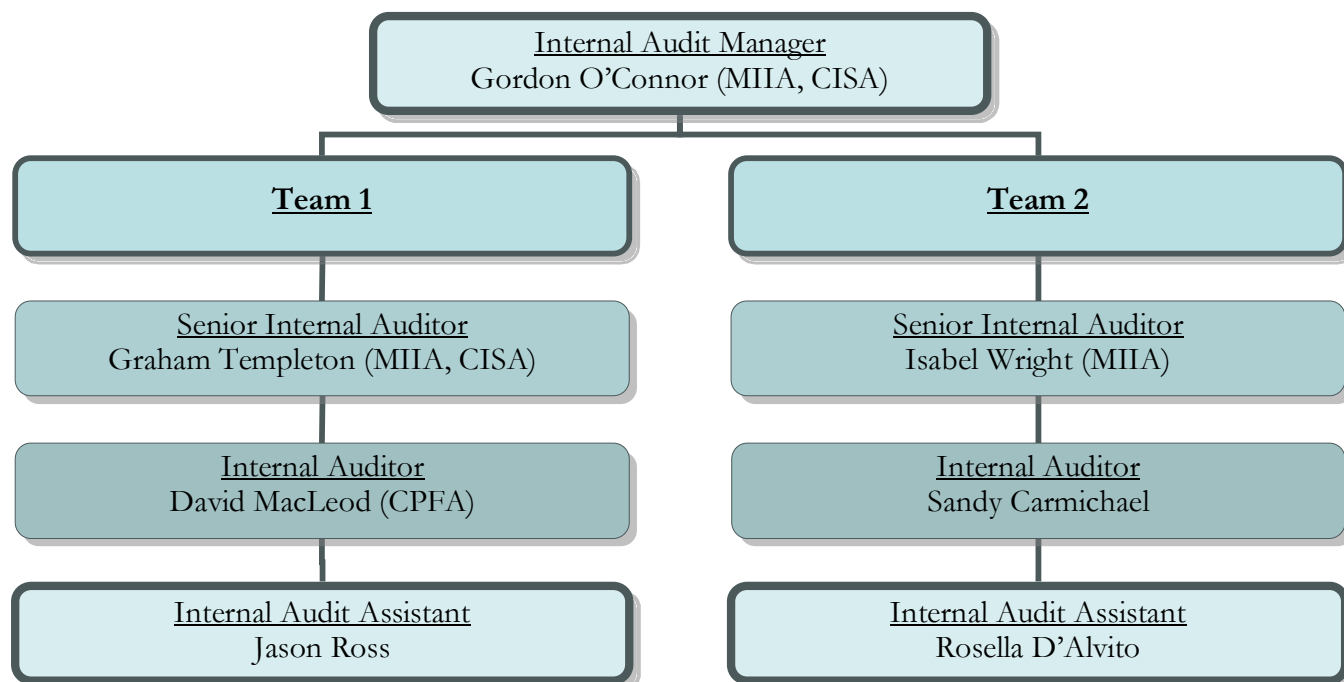
Internal Audit Manager

Date: 24 March 2009

DEFINITION OF AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Comprehensive assurance	Sound systems for risk, control and governance are in place and should be effective in mitigating risks to the achievement of business and control objectives. Some improvements to existing controls in a few, relatively minor, areas may be required.
Substantial assurance	The systems for risk, control and governance are largely satisfactory, but there is some scope for improvement as the present arrangements could undermine the achievement of business and/or control objectives and/or leave them vulnerable to some risk of error/abuse.
Limited assurance	The systems for risk, control and governance have some satisfactory aspects, but contain a number of significant weaknesses that are likely to undermine the achievement of business and/or control objectives and leave them vulnerable to an unacceptable risk of error/abuse.
No assurance	The systems for risk, control and governance are ineffectively designed and/or are operated ineffectively such that business and/or control objectives are not being achieved and the risk of serious error/abuse is unacceptable. Significant improvements are required.

INTERNAL AUDIT ORGANISATIONAL CHART 2009/10



**Responsible for providing
Internal Audit coverage to
the following Services:**

- Corporate and Neighbourhood Services;
- Development Services;
- Finance Services;
- Central Scotland Fire and Rescue Service.

**Responsible for providing
Internal Audit coverage to
the following Services:**

- Law and Administration Services;
- Education Services;
- Community Services;
- Social Work Services.