

# ITEM NO: 8 Appendices 1(a) & 1(b)

## SOUTHAMPTON CITY COUNCIL: INTERNAL AUDIT STRATEGY

### 5. DELIVERING THE AUDIT

#### 5.1. Objectives of the internal audit review

- 5.1.1. Any audit work intended to provide an audit opinion will be undertaken using a risk-based approach.
- 5.1.2. The purpose of the internal audit review will be to provide assurance to management, in relation to the business, activity, system or processes identified in the operational audit plan, that:
  - the framework of internal control, risk management and governance is appropriate and operating effectively; and
  - risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.
- 5.1.3. The Chief Internal Auditor will produce and maintain an "Internal Audit Manual" that defines the processes and procedures to be followed by the service in the conduct of its work to ensure appropriate professional standards are met.

#### 5.2. Planning

- 5.2.1. For each internal audit review, a written Terms of Reference, based on the operational plan, will be discussed, prepared and agreed with management. The Terms of Reference, prepared in standard format, will establish the scope of the review, detailing management objectives, key risks, and timing for the assignment.
- 5.2.2. The Terms of Reference will identify the lead auditor and audit team member(s) conducting the review. It will identify the 'audit sponsor' i.e. the Executive Director with overall strategic responsibility for the management objectives under review. It will also identify the 'key audit client', i.e. the Head of Service or other senior officer responsible for the operational delivery of the management objectives under review.
- 5.2.3. The Terms of Reference will list, as far as is practicable, the intended circulation for the final internal audit report. This may be subject to change at the discretion of the Chief Internal Auditor depending on the findings and outcomes of the review.
- 5.2.4. The Terms of Reference will be approved by the Chief Internal Auditor and relevant audit sponsor as evidence they accept the objectives of the review.

#### 5.3. Documenting the audit work

- 5.3.1. All internal audit assignments and documentation will be documented within the TeamMate audit management system. All will be subject to review by a qualified and experienced member of the audit team. The purpose of the review is to ensure that sufficient evidence has been obtained and recorded to support the auditor's conclusions and professional judgements.
- 5.3.2. Assignment documentation should be sufficiently complete to enable an experienced internal auditor with no previous connection with the review to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached. Review and documentation of review points will be evidenced by initialling and dating of the working papers by the reviewer and through the TeamMate audit management system. documentation of review points.

5.3.3. Documentation of the work must make clear the link between key risks, controls, assurances given and work done to support those assurances. In practice, this will be achieved through ~~development of cross-referenced 'risk evaluation matrices'~~ TeamMate risk evaluation matrices. The matrices will identify process specific risks and document the controls defined by management to manage these risks.

5.3.4. Significant controls will be verified for evidence that the actions are working as intended through adoption of an appropriate testing strategy. Testing will be sufficiently detailed to enable re-performance to deliver the same conclusions. Sample sizes for testing will follow the Audit Commission's approved methodology where appropriate.

5.3.5. Exceptions arising from control evaluation and testing will be recorded ~~on a 'points arising' schedule. The schedule will be cross and appropriately cross-referenced within TeamMate, referenced to the risk evaluation matrices and, ultimately, the audit action plans and report.~~

#### **5.4. Audit file structure**

5.4.1. A standard audit file structure has been adopted within TeamMate and will be used in the conduct of all audit reviews.

5.4.2. ~~An audit progress sheet is used to~~ TeamMate records key target dates and achievements. ~~A file completion schedule has been introduced and~~ TeamMate policies requires the Chief Internal Auditor to sign off the file at the end of each assignment.

#### **5.5. Audit supervision and review**

5.5.1. The Chief Internal Auditor is ultimately responsible for delivery of the audit work to the defined standard. In practice, responsibility for supervising specific assignments will be delegated through the Internal Audit Manager to the lead auditors; this will include:

- detailed planning of the exercise;
- managing each assignment on time, within budget and to the appropriate quality standard;
- discussing and agreeing the scope and operation of the exercise with the auditor(s);
- actively liaising with the auditor(s) to monitor progress on the exercise;
- ensuring adequate audit work has been performed to deliver an audit opinion;
- managing client expectations;
- reviewing audit work, action plans and reports produced by the auditor(s) at appropriate stages during the progress of the assignment; and
- a quality review of the conduct of the audit and an assessment of the performance of the auditor(s).

**6. INTERNAL AUDIT REPORTING**

**6.1. Accountability for risk**

- 6.1.1. Management and Members define the Council’s “risk appetite” by articulating the level of risk they are prepared to accept in respect of any activity or objective. Internal audit will consider the defined risk appetite in their evaluation of the framework of internal control, risk management and governance and will advise management where they consider that risk is not being controlled within the defined parameters. Management may either accept the advice and implement actions to address weaknesses or deficiencies in controls; or formally reject it.
- 6.1.2. Where internal audit believes that the defined risk appetite falls outside usually accepted parameters or that the rejection of their advice and the absence of satisfactory mitigating action leave the Council exposed to significant risk, they will bring the matter to the attention of the relevant Executive Director. If the Director elects to accept the risk, the Chief Internal Auditor will ensure the Audit Committee is appropriately informed.

**6.2. Assignment reporting**

- 6.2.1. All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.
- 6.2.2. Any key (serious) issues arising during the course of the audit review will be promptly reported to the Chief Internal Auditor to determine impact on the scope of the review. Key issues will also be promptly brought to management’s attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.
- 6.2.3. The ‘level’ of opinion provided in the formal report will be based on the following definitions:

Opinion		Framework of governance, risk management and management control	Risk to achievement of management’s objectives
Green	Substantial assurance	Basically a sound framework in place that is operating effectively. Some non-critical weaknesses or immaterial evidence of inconsistent application of the framework may have been identified.	The system is performing well to support achievement of clearly stated objectives through controlling risks to the defined accepted level.
Amber	Limited assurance	Critical weakness(es) identified within the framework or significant evidence of inconsistent application.	Risks may not be clearly defined and/or may fall outside accepted parameters. One or more important objectives are unlikely to be achieved.

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Opinion		Framework of governance, risk management and management control	Risk to achievement of management's objectives
Red	No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.	Failure to recognise and manage risks effectively. A real and substantial risk of failure to achieve management's objectives.

6.2.4. Action plans will form an integral part of the report and will be used to record:

- those risks considered to be inadequately controlled by the internal control, risk management and governance framework in place at the time of the audit review;
- audit's observations or findings that led it to its conclusion on the effectiveness of risk management;
- management's definition of the acceptable level of risk exposure (risk appetite); and
- the actions management propose to bring the risks within acceptable parameters, the officer(s) responsible for those actions and the dates for completion.
- a prioritisation of the actions using the following categories:

Priority Ratings	Current Risk	Action required
High	A significant risk of: failure to achieve objectives; fraud or impropriety; system breakdown; loss; or qualification of the accounts by Audit Commission. Such risk could lead to adverse impact on the Council or expose the Council to criticism	Immediate action required
Medium	A serious, but not immediate risk of: failure to achieve objectives; system breakdown; or loss.	Appropriately timed action required
Low	Areas that individually have no major impact, but where management would benefit from improved risk management and/or have the opportunity to achieve greater efficiency and/or effectiveness.	Action recommended to enhance standards of control

6.2.5. The auditor will draft action plans from significant points arising and arrange to meet with management, to ensure factual accuracy of the audit observations and findings and to ensure a proper understanding of the risks to which any action plan relates. These meetings should take place within two weeks of completion of the audit fieldwork. "Low priority" actions may be reported in the form of memorandum.

6.2.6. The auditor will discuss management's risk appetite and will advise on the appropriateness of established and planned controls. Management will be required to provide details of actions to be taken to bring the risk within the

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parameters of the defined risk appetite for inclusion in the audit report. Management will be required to provide a response to the action plans within one week of meeting with the auditor.

6.2.7. Any areas of disagreement between the auditor and management, regarding audit's observations and/or the auditor's assessment of current risk exposure, which cannot be resolved by discussion, will be recorded in the action plans.

6.2.8. Within one week of receipt of all action plans, the auditor will draft a clear, concise and constructive executive summary report, following a an agreed standard format, outlining:

- ~~management objectives under review;~~
- the overall level of assurance opinion, based on the auditor's professional judgement ~~as to the risk to the achievement of management objectives and of~~ the effectiveness of the framework of internal control, risk management and governance;
- the auditor's assessment evaluation of the ~~current~~ key risks to the achievement of the management objectives, ~~following corporate risk management guidelines; an evaluation of the key risks contributing to the framework of risk management, control and governance in support of the achievement of objectives~~ identified at the outset of the review; and
- ~~a brief outline of the audit coverage, i.e. an outline of the extent of the audit and what was examined in order to deliver the opinion, including any restrictions on the scope of the review; and a brief narrative summary of assurance in respect of each key risk identified in support of the achievement of objectives, to include:~~
- ~~a short narrative on audit observations to include:~~
  - ◆ areas of good practice identified;
  - ◆ any opportunities for efficiency gains identified including any examples of "over management" of risk; and
  - ◆ a summary of findings/observations, to include an explanation of the risk, its potential impact and the identified control weaknesses.

6.2.9. Following review by the lead auditor, the ~~final~~ draft report together with completed action plans will be submitted to the Chief Internal Auditor for approval of issue. The auditor will seek to arrange an exit meeting will be arranged to enable the auditor to brief the audit sponsor on the conclusions of the review.

6.2.10. The final report will be issued in the names of the auditor conducting the review and the Chief Internal Auditor. Final reports will be copied to:

- the audit sponsor;
- the audit client;
- the relevant policy coordinator;
- the Executive Director of Resources, as proper officer;
- all 'management action' ~~plan~~ owners related to the review;
- the 'final reports' folder; and

~~•the audit file.~~

- copies may also be provided to the External Auditor as requested.

### **6.3. Action tracking**

- 6.3.1. Management is accountable for any actions agreed within the action plans and responsible for ensuring actions are properly implemented within the agreed timescales and that this is reported to internal audit on a timely basis.
- 6.3.2. Internal audit will request progress reports from management, including evidence of actions taken where appropriate, within a timeframe that reflects delivery dates for agreed actions. The auditor will consider management's response and evidence submitted, and exercise judgment as to whether any further action (e.g. a follow up visit) is required by internal audit.
- 6.3.3. Any responses judged to be inadequate will be escalated by the Chief Internal Auditor to the audit sponsor (i.e. relevant Executive Director), the Chief Officers' Management Team (COMT) and finally, the Audit Committee, as deemed appropriate.
- 6.3.4. Actions will be tracked by internal audit to implementation or, as occasionally happens in times of rapid change, to obsolescence. The audit sponsor will be notified through the COMT report (see below) that an audit has been closed.

### **6.4. Reports to Chief Officers Management Team and the Audit Committee**

- 6.4.1. A status report on internal audit work will be presented to COMT and the Audit Committee on a quarterly basis (approximately). This report will include a summary of:
  - audit opinion and current status of all 'live' internal audit reports, i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and control;
  - executive summaries of all internal audit reports published since the last report where critical weaknesses or unacceptable levels of risk were identified;
  - latest positions statements from management in addressing issues raised in reports where critical weaknesses or unacceptable levels of risk were identified, including high priority actions where implementation is overdue;
  - a summary of internal audit performance, planning and resourcing issues; and
  - an update on progress of the annual audit plan.

### **6.5. Annual audit opinion**

- 6.5.1. A formal annual report to the Audit Committee, Chief Officers Management Team and Executive Director of Resources (as proper officer), presenting the Chief Internal Auditor's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, will be published ~~by the end of May~~ to enable it to be taken into account within the annual review of the effectiveness of the system of internal audit and in preparing the Corporate Governance Statement.

6.5.2. The format of the Chief Internal Auditor's report will follow that set out by the CIPFA Code and will include:

- an opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance;
- disclose any qualifications to that opinion, together with the reasons for qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- any issues considered by the Chief Internal Auditor to be particularly relevant to the Corporate Governance Statement;
- a comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and
- comment on compliance with the CIPFA Code and internal audit's quality assurance programme.