



# **INTERNAL AUDIT STRATEGY**

**2007 – 2011**  
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**12<sup>th</sup> September 2008**

# SOUTHAMPTON CITY COUNCIL INTERNAL AUDIT STRATEGY

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## **1. INTRODUCTION**

### **1.1. Background**

- 1.1.1. The requirement for an internal audit function in local government is detailed in the Accounts and Audit Regulations 2003 (as amended), which states that a relevant body must “*maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*”. The standards for ‘proper practices’ in relation to internal audit are laid down in the Chartered Institute of Public Finance and Accountancy’s *Code of practice for internal audit in Local Government in the United Kingdom (2006)* [“CIPFA Code”].
- 1.1.2. The responsibility for maintaining an adequate and effective system of internal audit within Southampton City Council [“the Council”] lies with the Executive Director of Resources, as the authority’s Chief Finance Officer.
- 1.1.3. The purpose of internal audit is to provide independent and objective assurance to the Council on risk management, control and governance, by evaluating their effectiveness in achieving the Council’s stated objectives.

### **1.2. Internal audit strategy**

- 1.2.1. The Council’s Internal Audit Strategy 2007 – 2011 was originally approved by the Standards and Governance Committee, 26 September 2006, in its capacity as the member body charged with undertaking the role and responsibilities of an audit committee. Subsequent amendments have been approved by the Audit Committee
- ~~1.2.2. The Council’s Internal Audit Strategy 2007 – 2011 was approved by the Standards and Governance Committee, 26 September 2006, in its capacity as the member body charged with undertaking the role and responsibilities of an audit committee. The existing strategy has been amended to reflect:~~
- ~~• the requirements of the revised CIPFA Code (2006);~~
  - ~~• current good practice in the risk-based approach to audit planning and delivery;~~
  - ~~• the adoption of a best practice audit risk model in the appraisal of the audit universe;~~
  - ~~• the introduction of the Audit Committee to the Council; and~~
  - ~~• the requirements of the revised CIPFA/SOLACE guidance on *Delivering good governance in Local Government (2007)*.~~
- 1.2.2. ~~These revisions to the internal audit strategy cover the period 2007-2011.~~ The strategy outlines how the Council’s internal audit service will be managed, delivered and developed to facilitate:
- delivery of an internal audit opinion on Southampton City Council’s internal control, risk management and governance arrangements, to inform the annual corporate governance statement;
  - audit of Southampton City Council’s internal control, risk management and governance systems through periodic audit plans, in a way which affords due consideration to the Council’s key priorities and significant risks;

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- continuous improvement of the internal control, risk management and governance framework and processes within the Council;
  - identification of the resources and skills required and method of delivery of an internal audit service that meets the CIPFA Code;
  - effective cooperation with the Audit Commission and other external review bodies; and
  - provision of assurance, consultancy and advisory services by internal audit.
- 1.2.3. This strategy is based on the Risk Based Internal Auditing [“RBIA”] concept. RBIA is a methodology that clearly links internal auditing to the organisation’s overall risk management framework and therefore priorities and objectives, enabling internal audit to provide assurance that risks are being managed effectively, in relation to the risk appetite.
- 1.2.4. In the published Medium Term Plan, the Council has identified five key priorities which underpin all of the Council’s work:
- tackling deprivation and inequalities;
  - promoting lifelong learning for all people;
  - improving community safety and reducing crime and disorder;
  - improving the street scene and the environment; and
  - promoting independent living.
- The RBIA methodology ensures internal audit effort is aligned with the Council’s priorities in the planning and performance of its work.
- 1.2.5. The Chief Internal Auditor is responsible for ensuring the internal audit strategy is reviewed annually (minimum) and the Audit Committee will be required to approve any significant amendments.

## **2. INTERNAL AUDIT TERMS OF REFERENCE**

2.1. These *Terms of reference* set out the purpose, authority and principal responsibilities of internal audit within Southampton City Council [the Council].

### **2.2. Purpose**

2.2.1. Internal audit is an assurance function that provides an independent and objective opinion to the Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Council's objectives.

2.2.2. Internal audit may provide an independent and objective consultancy service, specifically to help management improve the Council's control environment. The service applies the professional skills of internal audit through a systematic and disciplined evaluation of the policies, procedures, operations and risk management strategies that management has put in place, and through the provision of advice on improvement. The provision of such consultancy work is subject to the availability of resources and must demonstrate clear contribution to the internal audit opinion on internal control, risk management and governance arrangements.

2.2.3. Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. [Internal audit's role in this respect is outlined in the Council's Anti Fraud and Anti Corruption Strategy and Fraud Response Plan.](#)

2.2.4. Internal audit aims to provide high quality services that:

- add value and contribute to the achievement of the Council's aims and objectives;
- support elected Members and officers of the Council in the effective discharge of their responsibilities;
- specifically support the Executive Director of Resources in the discharge of duties as proper officer;
- are innovative and challenging, shaping the values and standards of the organisation; supporting and promoting the need for sound internal controls; and, encouraging management to take ownership of processes, systems and policy; and
- maintain a level of independence and integrity which supports the proper delivery of the internal audit function.

### **2.3. Statutory framework**

2.3.1. Internal audit is a statutory function within the Council under a duty to "*maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*" [Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006]. These standards for proper practices are laid down in the CIPFA Code.

### **2.4. Accountability**

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- 2.4.1. The Chief Internal Auditor reports to the Executive Director of Resources who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972 for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.
- 2.4.2. The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.
- 2.4.3. The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards.
- 2.4.4. Where it is considered necessary to the proper discharge of internal audit functions, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee and the Standards and Governance Committee).
- 2.4.5. Accountability for response to internal audit's advice lies with management, who either accept and implement the advice, or formally reject it. Audit advice is without prejudice to the right of internal audit to review the policies, procedures and operations at a later date.
- 2.4.6. The Chief Internal Auditor must be satisfied that management accepts accountability for, and provides an adequate response to, issues raised through internal audit's work. When the Chief Internal Auditor is not satisfied, the matter will be escalated to the relevant Executive Director and/or the Audit Committee.

### **2.5. Scope of internal audit work**

- 2.5.1. Internal audit's remit extends to the whole of the Council's internal control, risk management and governance environment which comprise the policy, procedures and operations in place to:
  - establish and monitor the achievement of the Council's objectives;
  - identify, assess and manage the risk to achieving the Council's objectives;
  - advise on, formulate and evaluate Council policy;
  - ensure the economical, effective and efficient use of resources;
  - ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;
  - safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
  - ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes;
  - manage the risk of fraud; and
  - work in partnership with other bodies, protecting the Council's interests in the delivery of shared objectives.

2.5.2. Internal audit will devote particular attention to any aspects of internal control, risk management and governance affected by material changes to the Council's risk environment.

## **2.6. Responsibility**

2.6.1. Executive Directors are responsible for ensuring that internal control, risk management and governance arrangements are sufficient to address the risks facing the delivery of the Council's objectives.

2.6.2. The Chief Internal Auditor is responsible for the management of a professional internal audit service, which follows the CIPFA Code and which advises Executive Directors in the effective discharge of their responsibilities.

## **2.7. Independence**

2.7.1. Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. In practice, independence will be achieved through internal audit:

- having no executive or operational responsibilities;
- operating in a framework that allows unrestricted access to Members and senior management;
- reporting in its own name;
- rotating responsibilities for audit assignments within the internal audit team;
- completing individual annual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensuring the planning process recognises and addresses potential conflicts of interest through avoiding use of contractors where non-internal audit services are also provided to an area under review, and through ensuring internal audit staff do not undertake an audit for at least two years in an area where they have had previous operational roles.

## **2.8. Strategy**

2.8.1. The Chief Internal Auditor will produce an audit strategy for the Council, detailing how the internal audit service will be delivered and developed in accordance with these terms of reference and how it links to the Council's objectives and priorities. The strategy will be approved (but not directed by) the Audit Committee. The strategy will be reviewed annually.

2.8.2. The strategy will be implemented through the determination and delivery of an annual operational risk-based audit plan, developed in consultation with the Executive Director of Resources, senior management and the Audit Committee.

2.8.3. The annual operational plan will be designed to enable the Chief Internal Auditor to deliver annually, an independent and objective opinion on internal control, risk management and governance, by measuring and evaluating their effectiveness in supporting or delivering the Council's stated objectives.

2.8.4. The annual operational plan will be subject to ongoing review and adjustment during the course of the year, to ensure it remains aligned with the Council's



key objectives and risks and is responsive to the priorities and concerns of the management team.

**2.9. Internal audit resources**

- | 2.9.1. The Chief Internal Auditor will be professionally qualified (CPFA, MIIA or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.
- 2.9.2. The Executive Director of Resources will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.
- | 2.9.3. The Chief Internal Auditor will appoint staff or external service providers with the range of knowledge, skills, qualifications and experience required to deliver the audit strategy to the standards laid down in the CIPFA Code.
- 2.9.4. If the Chief Internal Auditor, Audit Committee or Executive Directors consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the CIPFA Code is prejudiced, they will advise the Executive Director of Resources accordingly.

**2.10. Rights of access**

- 2.10.1. In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.
- 2.10.2. Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

**2.11. Due professional care**

- 2.11.1. Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.
- 2.11.2. Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.
- 2.11.3. Internal auditors will apprise themselves of the CIPFA Code and will work in accordance with the standards laid down in the Code.
- 2.11.4. Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor in accordance with the Council's laid down procedures.
- 2.11.5. Internal auditors will treat the information they receive in carrying out their duties as confidential. The Chief Internal Auditor is responsible for determining an Access Policy to outline the parameters for authorised disclosure of audit information, files and records. There will not be any unauthorised disclosure of information unless there is a legal or professional

requirement to do so. Confidential information gained in the course of internal audit work will not be used to affect personal gain.

**2.12. Reporting to third parties**

2.12.1. Subject to the prior approval of the Executive Director of Resources, the Chief Internal Auditor may agree to provide an opinion to a third party on internal control, risk management and governance within the Council or its partner organisations.

**2.13. Review of the internal audit terms of reference**

2.13.1. These *Terms of reference* will be reviewed annually (minimum) and the Chief Internal Auditor will advise the Audit Committee on their content and the need for any subsequent amendment.

**3. INTERNAL AUDIT SERVICES**

- 3.1. A range of internal audit services is provided. The approach will be determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the Council's success, the risks inherent in the achievement of those objectives and the level of confidence required that controls are well designed and operating as intended.
- 3.2. The range includes:
- 3.2.1. Risk based audit: in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- 3.2.2. Developing systems audit: in which:
- the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management;
  - programme/project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- 3.2.3. Compliance audit: in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- 3.2.4. Quality assurance review: in which the approach and competency of other reviewers/assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- 3.2.5. Consultancy or advisory services: in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any consultancy or advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.
- 3.2.6. Fraud and irregularity investigations: in which
- specialist skills and knowledge will be provided to assist in an investigation, or lead an investigation where appropriate
  - fraud prevention controls and detection processes are assessed to ascertain their effectiveness

<b>4. DEVELOPING THE AUDIT PLAN</b>
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**4.1. The audit universe**

4.1.1. The requirement for internal audit to provide a clear opinion on internal control, risk management and governance arrangements, flowing from the Council's key objectives, provides a clear focus for the audit approach.

4.1.2. Internal audit will define the 'audit universe', from the Council's key priorities and delivery framework (Community Strategy, Medium Term Plan, Corporate Improvement Plan, Directorate and Divisional Business Plans, Risk Register), ensuring it contains the main business processes, projects, assets, performance and compliance issues significant to the Council's strategic direction, risk environment and goals. Definition of the audit universe will enable internal audit to demonstrate support to the annual corporate governance statement and will encompass the following core principles:

- focus on the Council's defined purpose and outcomes;
- effective performance in clearly defined functions and roles;
- promoting values that underpin good governance through upholding high standards of conduct and behaviour;
- taking informed and transparent decisions within a framework of controls and managing risk;
- developing the capacity and capability of members and officers to be effective; and
- engaging stakeholders to ensure robust public accountability.

4.1.3. The audit universe will be subject to ongoing review and adjustment, to ensure it remains aligned with significant delivery objectives and risks and is responsive to the priorities and concerns of the management team. Amendments will be identified through internal audit's ongoing contact and liaison with those responsible for the governance of the Council (i.e. audit committee, chief officers, policy coordinators, heads of service).

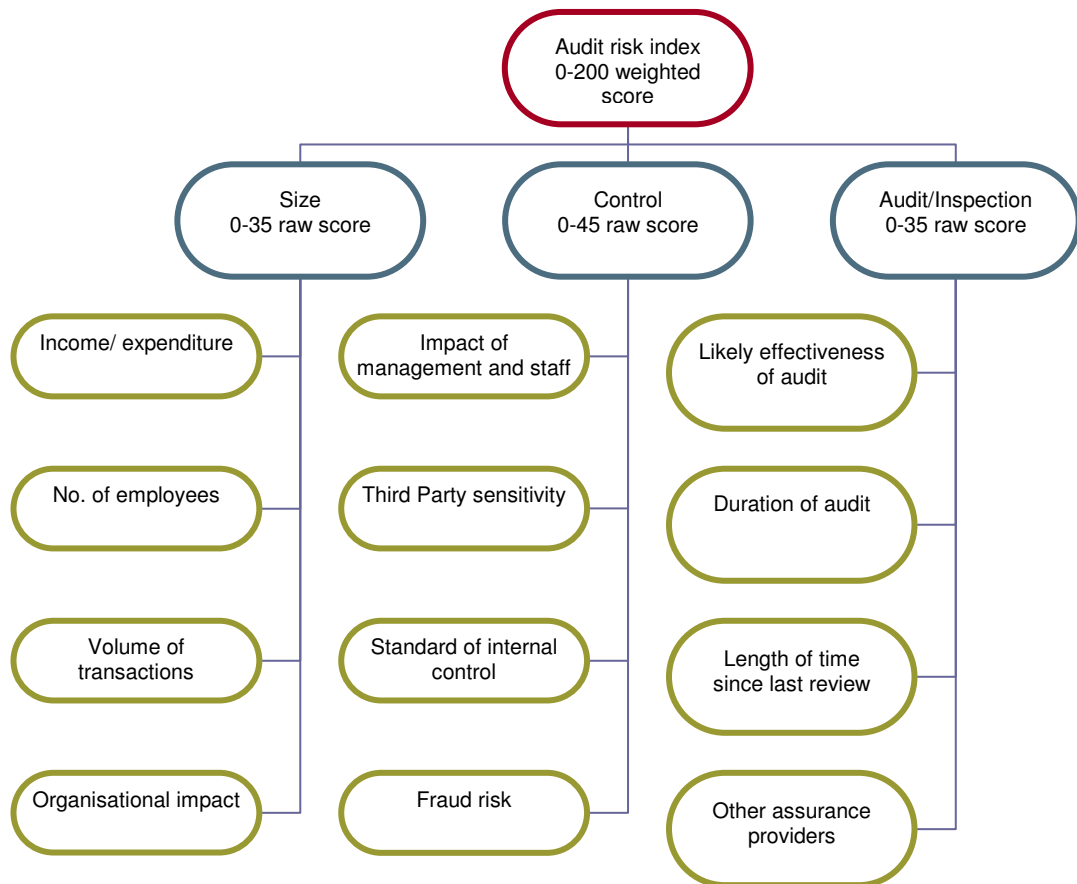
**4.2. Identifying audit needs**

4.2.1. Internal audit will include biennial assessments of the effectiveness of the corporate risk management and performance management frameworks within its programme of work, to support the Council's development of risk and performance management and to identify the extent to which internal audit is able to rely on these assurance functions.

4.2.2. The corporate risk register and performance framework will be used to inform the risk assessment of the audit universe, but will be supplemented with internal audit's own assessment of risk and materiality. Over time, this assessment will draw more extensively from the Council's risk register.

4.2.3. Internal audit's assessment of risk will be broadly based on a best practice audit risk methodology (the Stanford University Model) which provides for a systematic appraisal of the elements of the audit universe to enable auditable areas to be risk scored and indexed relative to all other areas.

**Figure 1  
Audit risk index**



4.2.4. The risk profile of the audit universe will be presented to senior management and the Audit Committee, identifying the specific services, activities, processes or projects that present the highest inherent risks. This profile will form the basis of a three-year strategic plan of internal audit work and will be updated at least annually to take cognisance of changing priorities within the Council.

**4.3. Producing the audit plan**

4.3.1. An annual operational plan will be derived from the three year strategic plan using a cycle-based risk approach, whereby audits will be selected based on greatest perceived inherent risk. A timing algorithm will be included to ensure that most effort is focused on inherently high risk areas while, at the same time, not totally ignoring the potential for problems to materialise within the rest of the audit universe.

4.3.2. Whilst internal audit will adopt a risk based approach to determine relative risk, there will remain areas where a purely cyclical approach will still be required, i.e. the audit of key financial systems. Such audits will be undertaken on an annual basis, largely to satisfy the requirements of the external auditors who seek to place reliance on the work of internal audit.

- 4.3.3. Other review work, based on criteria other than risk, may also be built into the plan. These may include grant certification work, Financial Management Standard in Schools (FMSiS) external assessment or other mandatory audits. They may also include audits or reviews requested by management or the Audit Committee, but will not include the direct delivery of executive responsibilities or functions.
- 4.3.4. A contingency allocation will also be built into the plan for consultancy work, investigations, reactive counter fraud work and other unplanned enquiries. Any commissioned review work must be able to clearly demonstrate contribution to the audit opinion on risk management, control and governance. Any displacement of a previously planned review by unplanned work will be clearly justified.
- 4.3.5. The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources. Management and the audit committee will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.
- 4.3.6. The annual operational plan will be submitted to the Executive Director of Resources and the Audit Committee for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to the Executive Director of Resources and the Audit Committee.

#### **4.4. Relationship with other assurance providers**

- 4.4.1. The availability of objective assurance from other assurance providers will be considered in determining audit needs.
- 4.4.2. A formal Audit Protocol document has been agreed between Internal Audit and the Audit Commission in line with good practice. The purpose of the protocol is to clarify the respective responsibilities between the external auditors and the Council's internal audit function to support an effective working relationship and to facilitate coordination of work. The Chief Internal Auditor will meet regularly with the Audit Commission to consult on audit plans, discuss matters of mutual interest and to seek opportunities for cooperation in the conduct of audit work. The Audit Commission will have the opportunity to rely on the work of internal audit where appropriate.
- 4.4.3. Where internal audit needs to work with the internal auditors of other organisations, a practice which is expanding with the development of more organisational strategic partnerships, the roles and responsibilities of each party will be clearly defined, agreed and documented.
- 4.4.4. Internal audit will also seek to establish a dialogue and develop effective working relationships with other review bodies such as the Department of Work and Pensions, HM Inspector of Schools, the Social Work Inspectorate, Benefit Fraud Inspectorate, etc., or at least be aware of work being undertaken within the Council by such review bodies. Where appropriate,

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internal audit will seek to share appropriate information, having regard to rights of access and confidentiality considerations.

**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.

<b>7. RESOURCING INTERNAL AUDIT</b>
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**7.1. Principles**

- 7.1.1. The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.
- 7.1.2. If the Chief Internal Auditor, Audit Committee or Executive Directors consider that the terms of reference or level of internal audit resources in any way limit the scope of internal audit, or prejudice the ability of internal audit to deliver a service consistent with CIPFA's Code, they should advise the Executive Director of Resources accordingly.
- 7.1.3. To support the achievement of the audit strategy and operational plan, the Chief Internal Auditor will consider:
- the Council's broad arrangements for controls assurance, corporate governance, risk management, partnership working and change management;
  - the approach to developing and accessing specialist skills such as IT audit, value for money audit, contract audit, investigations and risk management advice, etc;
  - the approach to staffing, including flexible working arrangements and the use of other sources of professional advice and support;
  - job descriptions and person specifications for each established post;
  - the structure of the Internal Audit service team, shown by way of an organisation chart.

**7.2. Staffing**

- 7.2.1. Internal audit will adopt a matrix-style delivery structure. By using a resource pool of multi-disciplinary auditors, capable of forming into teams as audit projects demand, the service will be able to ensure:
- efficient use of audit resources in delivery of the audit plan;
  - ability to respond quickly to service demands, particularly for unplanned work;
  - opportunities for skills transfer, staff development and breadth of experience for all team members;
  - sharing of the knowledge base; and
  - rotation of ongoing audit responsibilities within the team to maintain objectivity and independence.
- 7.2.2. The structure hierarchy will support a clear career progression pathway within the service, aligning roles and grades with professional qualifications and experience. All senior members of the team will be required to hold a relevant professional qualification.
- 7.2.3. The structure will provide for a clear separation of responsibility for delivery of ~~planned or~~ assurance work and ~~any unplanned or~~ non-assurance activity (e.g. ~~fraud related work,~~ \_\_ development of the Council's approach to risk



management ~~and, consultancy advice~~, coordination of controls assurance for production of the Corporate Governance Statement, etc). This will be achieved through division of these responsibilities between two managerial posts: the Risk and Assurance Manager and the Internal Audit Manager. These two posts, together with the Chief Internal Auditor, will form the Internal Audit, Risk ~~and Assurance Management~~-Service management team. The extended management team will also include the Principal Auditors.

### **7.3. Training and continuing professional development**

7.3.1. The Chief Internal Auditor will ensure that appropriate provision is made for maintaining and developing competence of audit staff.

7.3.2. Professional competence is dependent on development of a range of skills, behaviours and attitudes. A Learning and Development Plan will be produced annually, as part of the internal audit service's Business Plan, generated from individuals' 'Priorities for Learning and Development' as identified during the course of the annual performance appraisal. The plan will be aimed at supporting the provision of formal and effective training, backed up by opportunities for relevant work-based experience, to enable staff to carry out their work in accordance with the required professional and operational standards. The plan will be reviewed quarterly by the Chief Internal Auditor in consultation with the Internal Audit, Risk and Assurance Service management team.

7.3.3. The approach to learning and development, applicable to all internal audit staff, aims to support:

- achievement of relevant professional qualifications, e.g. CCAB, MIIA, MAAT;
- continuing professional development;
- technical, personal and professional updates;
- IT skills development; and
- management development.

Other generic training will be provided as required to meet operational needs through the Corporate Training Programme.

7.3.4. Managers, supervisors and individuals all share responsibility for the identification of learning and development needs and for developing and implementing learning and development plans to meet the needs of the internal audit service and individual staff members.

7.3.5. All internal auditors will have a personal responsibility to maintain their professional competence through an appropriate programme of continuing professional development and will be required to maintain a record of such learning and development activities.

**8. QUALITY ASSURANCE**

- 8.1. The internal audit team will work to CIPFA Code. Any non-permanent staff or external service providers or audit partners will also be expected to work to these standards and to operate as part of the in-house team, so as to maintain consistency and “seamless” service provision. This requirement will be enforced through appropriate supervision, and supervisory/management review of all audit working papers, action plans and audit reports.
- 8.2. All internal audit reviews will be conducted using a standard audit methodology and suite of working papers, to ensure consistency of approach and documentation.
- 8.3. Members of the team required to conduct supervisory reviews will be members of a relevant professional body and will be bound by that body’s Code of ethics and professional guidance.
- 8.4. The Chief Internal Auditor will put in place a performance management framework that enables internal audit to demonstrate it is:
- meeting its aims and objectives
  - compliant with the CIPFA Code;
  - efficient and effective; and
  - continuously improving.
- 8.5. A suite of suitable key performance indicators will be developed by the Chief Internal Auditor and agreed with the Audit Committee and performance against those indicators will be reported in the Chief Internal Auditor’s Annual Report.
- 8.6. Feedback forms will be distributed to audit sponsors and clients at the end of each audit assignment to assess the value of the assignment to management and to seek suggestions for improvement. All completed forms will be reviewed by the Chief Internal Auditor and the auditor conducting the assignment and responded to appropriately.
- 8.7. The Accounts and Audit (Amendment) (England) Regulations 2006 require that an annual review of the effectiveness of internal audit is carried out and that the Audit Committee considers the results of the review. At appropriate intervals, the Chief Internal Auditor will delegate one of the professionally qualified internal auditors to perform an internal quality review or will commission an external quality review of the internal audit service. In each case the remit will be to assess the standards achieved by internal audit as measured against the CIPFA Code. The Chief Internal Auditor will:
- provide the reviewer with written terms of reference making clear their expectation that the review will be performed with scrupulous rigour;
  - address the findings of the review objectively and without prejudice; and
  - make the report, their response to it and any action plans arising from it available to the Audit Committee and the Executive Director of Resources.
- 8.8. The Audit Commission will review internal audit fully against the CIPFA Code every three years, with a short revisit in other years. The conclusions of these

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reviews will be made available to the Audit Committee and the Executive Director of Resources.

**9. KEY RISKS TO DELIVERY OF THE AUDIT STRATEGY**

- 9.1.** Failure to align internal audit effort to key risks to the achievement of Southampton City Council's objectives – resulting in inappropriate or inadequate audit coverage. This will be mitigated through alignment of the audit plan with the corporate business planning framework and ongoing communication with those responsible for the governance of the organisation.
- 9.2.** Failure to attract or retain adequately skilled resources - impacting on the Chief Internal Auditor's ability to deliver an overall opinion each year on the Council's risk management, control and governance, to support the Corporate Governance Statement. This risk will be addressed through ongoing training and development of internal audit staff and ongoing review of the need to engage interim staff or external service providers. Cost is clearly a constraining factor and the Chief Internal Auditor will refer any concerns regarding the service's ability to deliver to the Executive Director of Resources at an early stage.
- 9.3.** Inefficient use of assurance resources – resulting in wasted cost and effort. Internal audit will continue to strive to develop cooperative relationships with other assurance providers to ensure effort is not duplicated and that management does not receive conflicting messages on the effectiveness of the framework of governance, risk management and management control.
- 9.4.** Internal audit conclusions are inaccurate – resulting in provision of inappropriate evaluation and/or opinion to management. All internal audit assignments will be undertaken in accordance with the CIPFA Code. Internal auditors will obtain and record sufficient relevant evidence to support their conclusions and professional judgements. Observations and conclusions will be discussed with management prior to publication of the audit opinion. All audit assignments will be subject to supervisor review to ensure that the quality of work meets the defined standards.
- 9.5.** Actions arising from internal audit, reviews are not implemented – resulting in the Council's exposure to unacceptable levels of risk. The responsibility for implementing actions agreed in response to unacceptable levels of risk identified from internal audit work lies with management. Internal audit will follow-up agreed action plans to ensure management has responded adequately to the risk. Any responses judged to be inadequate will be escalated by the Chief Internal Auditor to the appropriate Executive Director, the Chief Officers' Management Team and finally, the Audit Committee, as deemed appropriate.

Sarah Dennis  
Chief Internal Auditor  
Date: 12<sup>th</sup> September 2008