

**OXFORDSHIRE COUNTY COUNCIL**  
**INTERNAL AUDIT SERVICES**  
**INTERNAL AUDIT STRATEGY 2011/12**

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## **INTERNAL AUDIT SERVICES**

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#### **1. Introduction**

- 1.1 In previous years the Audit Committee has been presented with a combined Internal Audit Strategy and Annual Audit Plan for approval. This report is the strategy for 2011/12, there will be no detailed annual plan for 2011/12. The Council is undergoing significant change over the next few years, and key risks will be emerging as the Business Strategy is implemented, therefore developing a risk based annual assurance plan is not appropriate. In recognition of the pace of change we will be developing and delivering assurance plans on quarterly basis for the foreseeable future.
- 1.2 This paper outlines in more detail the Internal Audit Strategy, including the resources available and how we will be delivering our service in 2011/12.

#### **2. Internal Audit Strategy**

- 2.1 The Accounts and Audit Regulations 2003 (S6) as amended in 2006, state that the Council needs 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 internal audit practices. Proper internal audit practices are defined in the CIPFA Code of Practice for Internal Audit in Local Government in the UK, which was also updated for 2006.
- 2.2 The CIPFA Code of Practice 2006 defines Internal Audit as an assurance function whose primary role is to provide an independent and objective opinion to the Council on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic and efficient use of resources.
- 2.3 The Assistant Head of Finance (Audit) provides this opinion in an annual report on the System of Internal Control, which is used to inform the Council's Annual Governance Statement. In providing this opinion we are required to review annually the financial management, risk management and governance processes operating within the Council. This includes reviewing internal control systems for key processes on a risk basis. The methodology for identifying areas for audit is detailed in section 3 of this report.
- 2.4 A key part of the strategy is ensuring the right skills mix and resources exist to deliver an effective service; from 2011/12 there are significant pressures on the Internal Audit Service:

- The Internal Audit Budget is being reduced by £63,000 in 2011/12, and a further £36,000 in each of the two following years.
- The Department for Education ended the FMSiS programme in November 2010. It had been expected to run until at least March 2013. Loss of income to Internal Audit from the cessation of this programme is £84,000 per annum. We are waiting to hear on what is to replace FMSiS, but the Schools Forum have requested a report in March with a proposal for continuing with a reduced chargeable service from Internal Audit to support the Governing Body in maintaining financial governance. As there is no certainty on the outcome, for planning purposes the abolition of FMSiS is being treated as a financial pressure.
- In April 2010, a Principal Auditor joined the team under statutory transfer from the disbanded LSC. This post was to be fully funded for three years through the Area Based Grant (ABG). Following Government review of the ABG, from 2011/12 the post could no longer be funded from that source, which would have been a budget pressure; however, the post became vacant in January 2011 and will not therefore be filled. The pressure on the Internal Audit Service is a loss of 115 audit days.
- A member of the team will be on maternity leave throughout 2011/12. Some funding will be available to back fill, although not equivalent to a full time post.
- A full time member of the team will be returning from maternity leave in April 2011, but at reduced hours. The saving on salary will be used to backfill using the call off contract, but this will result in a small reduction in overall audit days available.
- A member of the team who we are supporting in obtaining the CIPFA qualification will be taking up secondment opportunity during 2011/12 to develop their experience portfolio as required by CIPFA. Whilst in terms of staff development this is mutually beneficial, the impact will be a small reduction in the overall audit days available. (The impact is one year only, so from 2012/13 the available audit days will increase again)
- The staffing structure outlined later in this report is dependent on the external income and cost sharing generated through working with Thames Valley Police Authority and Buckinghamshire County Council. In 2009 we entered into a three year agreement to manage the Internal Audit Service for Thames Valley Police Authority. The agreement ends in March 2012. Given the uncertainty with regards to the role of Police Authorities there is a high risk that this income stream will cease from 2012/13.

2.5 To manage these pressures and to provide resilience and flexibility to ensure we have the right resources available, we are currently consulting

- staff at Oxfordshire and Buckinghamshire to have a fully collaborated service with a shared Chief Internal Audit and Audit Management, and occasional need for audit staff to work across the two Authorities. The consultation process should be concluded before the end of March. In addition to the in house teams, we continue to bring in audit staff under the call off contract with Deloitte PSIA, including specialist auditors for areas where skills in both teams need to be developed, for example contract auditing. In Oxfordshire we will continue to contract out IT Audit.
- 2.6 Whilst the contract with Deloitte operates on a call off basis, we will continue to work closely with them in helping to meet our training needs, through direct training, access to their web based knowledge share, and by sharing resources on audits to enable knowledge and skills transfer to the in house staff where required.
- 2.7 Through working with Deloitte we will be able to utilise their Audit Management Software, which will automate the audit file, and reporting process, as well as supporting flexible and remote working which is particularly important as we move towards full collaboration.
- 2.8 A further enhancement planned for 2011/12 is new software to manage actions tracking. In Internal Audit we currently operate spreadsheets for monitoring implementation of agreed management actions, which is heavily resource intensive. The software solution will reduce significantly the amount of auditor time administering the process, allowing those days to be directed more effectively towards delivering actual audits.
- 2.9 There will remain a significant emphasis for internal audit activity in reviewing financial systems and compliance with the governance framework; however, as the Council implements the Business Strategy and service delivery changes, assurance on strategic risks such as major procurement of services, and changes to the management infrastructure are key areas requiring assurance, along with the key operational risks. To ensure we are directing audit resources to key risk areas we will be operating on a quarterly planning cycle, that will be integrated with the Corporate Performance Team, and will include combined quarterly meetings with the Directorate Leadership Teams to consider performance risk and controls, and to agree the key areas where assurance is required.
- 2.10 The structure of the Internal Audit Team will be changing for 2011/12, moving away from a Directorate based structure to one where an Audit Manager has responsibility for leading on strategic risks, whilst the other leads on operational risks. This structure reflects the new cross working approach of the Business Strategy.

### **3. Audit Planning Methodology**

- 3.1 A quarterly internal audit plan will be produced in consultation with the Corporate Performance Team and with consideration to the risk registers. This will be agreed with the Directors during quarterly meetings.

- 3.2 The Quarterly plans will be presented to the Audit Committee for consideration and comment.
- 3.3 The Audit Plans will continue to be influenced by external organisations and statutory bodies we work with and provide assurance to. We have developed a joint working protocol with the Audit Commission that is enabling us to review our approach to the auditing of key financial systems without affecting the assurance we can give, or the reliance Audit Commission place on our work.
- 3.4 We will continue to support the Corporate Governance Assurance Group in producing the annual governance statement through undertaking annual compliance audits that will support Directors in completing their annual statements, but also in co-ordinating the meetings and the production of the Annual Governance Statement and Action Monitoring.
- 3.5 Counter-fraud will continue to be part of the planned audit activity; however we will no longer be providing a contingency for undertaking fraud investigations. Where an investigation is required this will be a charged back service, and the income used to back fill, or procure the services as required. We are currently exploring with another Authority the opportunity for them to provide a fraud investigation service on a call off basis.

#### 4. Resources

- 4.1 The Internal Audit Service is resourced as follows:

<b>In House Team</b>	<b>2010/11 FTE</b>	<b>2011/12 FTE</b>	<b>Chargeable Days available</b>	<b>Planned OCC days 2011/12</b>	<b>Planned External days 2011/12</b>
Assistant Head of Finance (Audit)	1.0	1.0	180	87	93
Audit Managers	1.6	1.6	281	186	95
Principal Auditors	3.0	2.0 – (including maternity leave)	199	179	20
Senior Auditor	3.0 (one vacancy)	1.8	289	269	20
Auditors	3.0	1.0	186	96	90

CIPFA Trainee	1.0	1.0	152	152	0
Audit Assistant	0.8	0.8	135	105	30
<b>External</b>					
IT Audit			140	100	40
BCC			40	40	
Deloittes			407	255	152
<b>Total</b>	<b>13.4</b>	<b>9.2</b>	<b>2009</b>	<b>1469</b>	<b>540</b>

4.6 The staffing reductions are explained as follows:

- Principal Auditor reduced by one – was funded through ABG. Vacant post
- Senior Auditor reduced by 1.2 – the vacancy in 2010 was never filled and has been deleted as part of the savings. The 0.2 is for reduced hours with effect from 1 April 2011.
- Auditor reduced by 2 – Both posts were funded through external income generation, (TVPA and FMSiS), both are vacant posts so are being deleted as part of the savings.

#### Analysis of auditor days

	2010/11	Comments	2010/11	Diff.	Reason for change
Gross days – In house team	2388	This represents 9.23 FTE, including 1.0 expected to be on maternity leave for all of 2011/12.	3437	-1049	Reduction of four posts (260 days each) – 1 X Assistant Audit Manager, 1 x Senior Auditor, 2 x Auditor. Reduction in hours from full time to 0.8 for a Senior Auditor (49 days).  Error in 10/11 days – Administration should have been an extra 40 days.
Compliance Manager – Schools	0		73	-73	This was directly funded as part of the income generated through the FMSiS audit

Support Finance					activity which ends 31 March 2011
Contract days	587	This is made up of: 100 days IT Audit plus 40 days IT Audit for TVPA  255 days Audit Services Contract (includes days for expected maternity cover and for Senior Auditor secondment backfill), plus 152 days for TVPA  40 days for new 14-18's learning assurance requirements	682	-95	Last year there was a provision for 180 days for FMSiS not required from 1 April 2011.  The number of days from the Audit Services contract has increased by 105.  The days for 14-18's assurance is reduced by 20 days as the LA is now only required to provide assurance on sixth form funding.
<b>Total Gross days</b>	<b>2975</b>		<b>4192</b>	<b>-1217</b>	
Overheads	789	This time is for bank holidays, annual leave, special leave, training, contingency for sick absence, and recruitment.	1016	-227	The time remains relatively high despite the reduction in staff as there remains a full year overhead for maternity leave and additional professional training days for a Senior Auditor to complete her experience log. The overhead includes time for the Team Administrator not previously included.  In total 180 days are lost to professional training (3 staff), and 220 days to maternity leave.
Non Chargeable Days	177	The non chargeable days are for non audit related activity, including administration time, the wider role of the	465	-288	The reduction reflects the loss of in house posts, and also the restructure in the team and focus on maximising chargeable days – including

		AHOF (Audit), staff appraisals, 1:1's and departmental work.			the administration time.
Total Chargeable days available	2009	This is the number of days that contribute directly to internal audit activity.	2711	-702	
Chargeable Days – non assignment	255	These are days not attributed to planned audit activity, such as the Head of Audits management days, admin support for actual audit work, preparation of the audit plan, operational planning, reports for the AWG and Audit Committee, and corporate assurance groups	278	-23	There is a small decrease. overall Auditor days has decreased but the chargeable administrative time has increased by 70 days, as nature of the role has changed.
Chargeable days – External Clients (BCC and TVPA)	540		451	+ 89 days	222 days is provided by contract staff, and charged out admin time.  There is an increase of 110 days planned for BCC as part of the collaboration,  143 in house days are planned on TVPA work, which is a reduction of 123 days.
Chargeable days – OCC assignment based	1214	This is the number of days available for delivering the audit plan.	1982	-768	The end of FMSiS has reduced the audit days by 481. The loss of the funding for the statutory transferred post (Vacant from January 2011 not being replaced) has resulted in a further reduction of 115 days. The reduction in budget of £63K has therefore resulted in a further reduction



					in assignment days of 172.
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4.5 It is planned that Internal Audit Services will deliver a minimum of 1214 days on Audit Assignments that will be designed to provide reasonable assurance on the system of internal control. As outlined above the quarterly plans will be presented to the Audit Committee, with Q1 at the April meeting. The type of audit activity will be:

Key Financial Systems	<p>We will test any changes to the existing systems, and will undertake walkthrough test to confirm the system. We will agree with External Audit the key controls to be tested, and undertake the compliance/substantive testing.</p> <p>We will also complete our assurance work through analytical review using the audit interrogation software on identified areas of fraud risk and error.</p>
Governance	<p>We will undertake testing across Directorates of compliance against the governance and regulatory framework, including the key control processes covering HR, ICT, Financial Management, Risk Management, Project Management, Performance, and Procurement. This will provide evidence to the Directors for completion of their annual assurance statement.</p>
Schools	<p>We will seek assurance through analytical on SAP and through the work of the Schools Finance Support Team, with targeted visits to schools if and when required.</p> <p>This may be subject to change depending on the consultation with the Schools Forum in March.</p>
IT Audit	<p>We will undertake a programme of audits of operational systems, and we will provide assurance on major ICT strategic projects planned in 2011/12</p>
Contract Audit	<p>We will be using Deloitte for providing</p>

	Contract Auditors, to work with the in house team to enable the skills knowledge transfer. This work will cross all Directorates.
Operational Risk	Performance systems for key operational risks ascertained through consultation with Corporate Performance Team and Directors be reviewed and tested.
Strategic Risk	Performance systems for the management of strategic risk, for example major procurement and projects will be reviewed and tested.
Counter Fraud	A programme of Counter-Fraud work will be produced, including raising awareness, and proactive fraud testing using the Audit Interrogation software, and the data matches highlighted in the 2010 NFI exercise.
Follow Up	We will continue to monitor and report on the implementation of agreed management action.  As stated above we are looking at a new software solution to reduce the administrative burden of the current system.

## 5. Risks

- 5.1 The key risk areas to the achievement of the plan are performance and capacity. Performance is considered low risk, but capacity is a medium risk as the amount of change and therefore impact on risk and performance is an unknown quantity. This is being mitigated in part by having quarterly plans reported to the Audit Committee so that capacity issues can be identified early.

## 6 Performance Monitoring / Reporting

- 6.1 The proposed performance indicators for 2011/12 are attached as appendix 1 to this report. I am proposing a change to the current reporting into the Audit Committee: Currently an Internal Audit progress report is presented at each Audit Working Group; it is recommended to Committee that in addition to presenting a quarterly plan to the Audit Committee, they should also be receiving the performance report against the previous months plan, with a summary of the outcomes from each audit. As a matter of course any audits with an “unacceptable” overall opinion should

be referred to the AWG, who should call in the responsible Manager for assurance on what action is being taken. It is also proposed that the AWG receive monitoring reports on outstanding management actions as a matter of course from Internal Audit.

Ian Dyson

Assistant Head of Finance (Audit)

February 2011



**APPENDIX A Proposed PERFORMANCE INDICATORS 2011/12**

	<b>Performance Measure</b>	<b>Target</b>	<b>Frequency reporting</b>	<b>of</b>	<b>Method</b>
1	Elapsed time between start of the audit (opening meeting) and Exit Meeting.	Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc)	Every Quarter to AWG		Internal Audit Performance Monitoring System
2	Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 Days	Every Quarter to AWG		Internal Audit Performance Monitoring System
3	Elapsed Time between issue of Draft report and issue of Final Report	15 Days (Except Schools Audits)	Every Quarter to AWG		Internal Audit Performance Monitoring System
4	% of Quarterly Internal Audit Planned Activity delivered in the period.	80% by end of each quarter	Quarterly report to Audit Committee.		Internal Audit Performance Monitoring System
5	% of 2011/12 planned audit activity completed by 30 April 2012	100%	Report to Audit Committee		Internal Audit Performance Monitoring System
6	Hours charged to audits compared to budgets	All audits delivered within budget	Every Quarter to Audit Committee		Internal Audit Performance Monitoring System

7	% of Priority 1 and 2 management actions followed up after implementation date	All priority 1 and 2 actions followed up within three months of the date of expected implementation	Every Quarter to AWG	Internal Audit Performance Monitoring System
8	% of management actions implemented within the agreed timescales	90% of all management actions	Every Quarter to AWG	Internal Audit Performance Monitoring System
9	Customer satisfaction	< 10 substantiated complaints against the service	Progress report to Audit Committee	Complaints recording
10	Directors satisfaction with internal audit work	Satisfactory or above	Annually - review of the effectiveness of IA	Questionnaire
11	Extent of reliance External Audit can place on Internal Audit	Reliance placed on IA work	Report by Audit Commission	Audit Commission