

Internal Audit & Risk Assurance Strategy

This strategy is a statement of how Audit Lincolnshire delivers assurance to the Council, creating a framework within which more detailed plans can be developed. Our strategy aims to provide a complete picture as possible of the Council's critical systems and the key risks it faces. It is designed to provide assurance on the Councils' business plan objectives and priorities.

At the heart of the strategy is our 'Assurance Map'. This helps focus our work plans on risks that matter – the make or break risks that affect the successful delivery of services and strategic objectives. It also recognises the importance of critical business systems that support successful delivery and 'protect the business'.

Our aim is to align our work with other assurance functions, particularly performance and risk management and look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council. The Map can be used to:

- § Help establish the Internal Annual Audit Plan by identifying where more independent assurance is required based on significance and risk of the activity.
- § Support the Head of Audit's annual audit opinion and the work of the Audit Committee.
- § Provide an overview of assurance to the Audit Committee and Senior Management which will help address any gaps in assurance based on the significance and risk of the activity.
- § Streamline and avoid duplication of effort where assurance can be drawn from a third party or other sources.

Our vision

Our main role is to provide assurance that the Council maintains an effective internal control environment that enables it to manage its significant business risks and achieve its objectives / priorities. We help the Council achieve its objectives, ensure that effective & efficient operations are maintained, safeguards its resources and provides assurance that the Council has good governance arrangements in place.

Our aim is to:

"To deliver excellent and innovative services that help support delivery of the Council's objectives and priorities"

"Work together to be the best risk and audit assurance provider for Lincolnshire public sector agencies"

The key drivers of this strategy are:

- § To help managers identify, understand and manage the risks facing achieving their, and the Council's, objectives and priorities as set out in the Corporate and

Business plans. Create an environment of well measured risk taking and a strong control environment,

- § To help promote effective risk management,
- § Provide *independent* and *objective* assurance on the critical systems and strategic key risk areas whilst leveraging other assurance functions,
- § To meet our customers needs now and for the longer term, and
- § Maintain a resilient and sustainable service.

This helps focus our work to where it is most needed, whilst complying with the CIPFA¹ Code of Practice for Internal Auditors in Local Government in the UK 2006 (the Code).

How we chose what to look at

Our Assurance Map can be linked back to:

- § business plan objectives & priorities;
- § service plans;
- § critical systems;
- § the strategic risk register;
- § change management programme,
- § emerging risks, and
- § the assurance framework.

It has been developed through our understanding of the business, reference to the risk management arrangements in the Council and by gathering information from Senior Management. It maps:

- § The critical systems of the Council - Those key service activities whose failure could result in significant damage to the Council's reputation, material financial loss, significant impact on members of the public or failure to comply with service legal requirements.
- § Due diligence activities – Key processes that support the running of the business and ensure compliance with corporate policies and legal requirements. How often we review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management.
- § Strategic Risks – Any risk recorded within the Strategic Risk Register or a risk considered by Senior Management that should be considered for inclusion.
- § Emerging risks - Risks that are created by a new activity or business strategy, a change programme or changes to an existing activity.
- § Key transformation programmes and projects. Those supporting delivery of a corporate objective / priority.
- § ICT Assurance. An ICT Audit plan focussed on the critical IT applications and activities that support delivery of the Councils' key functions. This is based on a risk assessment.

¹ Chartered Institute of Public Finance and Accountancy

Having developed the Assurance Map we then assess what assurance (comfort) we can obtain ie A critical review or assessment that gives us a reasonable level of confidence on the activity's service delivery arrangements, management of risks, operation of controls and / or performance'.

Assurance can be obtained by:

- § Internal Audit through our work plans
- § Third Party Assurance eg Inspections and / or other assurance functions of the Council (Risk Management, Proactive Counter Fraud work, Performance, Programme Management, Health & Safety, Legal, Procurement, External Audit, Inspection results)
- § Management Assurance – Provided by the Senior Manager of the activity through responding to some diagnostic questions on service delivery, risks and performance.
- § The status and independence of the Audit Committee allow it to challenge how things are done and confirm that the right processes are in place. It is a vital “watchdog” body promoting good governance and accountability and plays a key role in the Councils assurance arrangements. Senior Management provide assurance to this Committee.

Our strategy for determining the level of assurance and allocating our resources is also influenced by the Council's *risk appetite*². The Council's risk appetite is reviewed from time to time to help assess the levels of assurance needed. It is currently assessed as **open and aware** ie *willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing a good level of reward (value for money etc)*. This means that our risk and assurance systems need to be working well so that we create an environment of *no surprises*. The level of *risk appetite* may also vary given the nature of the risk and at the time of asking (current circumstances).

In deciding what we look at we assess how much reliance we can place on the risk management arrangements of the Council and other sources of assurance.

We take all of the above into account when we plan our work to ensure that the Council get the most out of the Internal Audit Service.

Our Service

Our service is made up of three teams:

- § Risk Management
- § Audit
- § Counter Fraud and Investigations

They work closely to provide independent assurance that an effective internal control environment is in place that enables the Council to manage its significant business risks

We have formed the 'Audit Lincolnshire' partnership which involves Lincolnshire County Council and the City of Lincoln working together for the provision of internal audit services to

² The amount of risk that we are prepared to accept, tolerate or be exposed to at any point in time

their own authorities and authorities with whom they have contractual, or other agreements. For more information on the partnership please follow this (insert [link](#))

Our delivery model is predominately in-house staff however where appropriate we engage specialist auditors to support the delivery of our work plans eg Computer Audit

Risk Management

This team develops and maintains the Council's Risk Management Strategy and structures.

They work with senior managers and our key partners to help produce and monitor our risks at a strategic level. They support management to have the confidence to take well measured risks – creating an environment for innovation and seizing opportunities. They obtain assurance that our key controls mechanisms are operating or are being developed effectively on the Strategic Risk Register.

In supporting effective risk management they develop and maintain the following policies:

- § Business Continuity Strategy
- § Health and Safety Strategy
- § Insurance Strategy

Audit

This team supports the Section 151 Officer and Monitoring Officer. It ensures the Council meets the requirements of the Accounts and Audit Regulations for maintaining an adequate and effective internal audit function.

Our scope spans the whole range of Council activities, financial or otherwise, and includes:

- § Working with managers to provide assurance that key service risks are being effectively managed. Gaining assurance that key control mechanisms are operating or are being developed effectively.
- § Gaining assurance that our key financial systems are working correctly
- § Gaining assurance that our critical systems are working correctly
- § Value for Money reviews
- § Giving advice on risk and controls for major change programmes and developments

The audit plan includes key financial systems regarded by External Audit as material to their opinion on a Council's Statement of Accounts. We have a protocol with them that aims to make the best use of the Councils combined audit resource.

Counter Fraud and Investigations

The team develops and maintains the Councils Counter Fraud and Whistle blowing policies. Working with other local authorities we have joined forces to tackle fraud in Lincolnshire. This includes:

- § Supporting managers by undertaking proactive counter fraud work in areas where the service is most exposed to the risk of fraud or error
- § Undertaking investigations into alleged irregularities and frauds

Our annual work plans

The focus of our work is primarily determined by the evaluation of the Assurance Map and tends to be on the critical systems (including IT), strategic risk areas, key finance systems and transformational change programmes. This helps our service be more proactive and directs our work to areas where it is most needed.

The development of plans includes consultation with service and senior management. They are approved in accordance with each client's requirements³, and include flexibility to take into account of changing requirements.

Some *contingency* days is also included to help us respond to any issues highlighted during consultation and emerging risks during the year.

Our annual plan is approved by the Executive Director – Resources and Community Safety and the Audit Committee.

Our Assurance Approach

How we provide assurance can vary and will be based on what evidence we need to have a reasonable level of confidence on the activity's service delivery arrangements, management of risks, operation of controls and / or performance. Our options are:

- § We assess what reliance we can place on Third Parties work
- § We assess what reliance we can place on Management Assurances
- § We undertake an audit using the most appropriate approach. These are:

A risk based approach assignment

Risk based auditing contributes to ensuring that the governance framework, including risk and internal control is working as intended and helps provide senior management and the audit committee with information on how effective the Council is at managing its risks.

This approach draws on the knowledge and experience of managers as we consult with them to ensure that each audit assignment is focussed on areas of greatest risk or concern. This enables us to provide the most effective coverage, minimise duplication and provides an ideal opportunity to raise risk awareness amongst managers.

An objective based approach assignment

Using this approach will give more value when used on appropriate assignments. It helps us move away from looking at the impact of failure (blame culture) and focus on delivery of outcomes.

Instead of solely focussing on the risk our approach focuses on:

- § what needs to happen to achieve your objectives or outcome (it recognises that innovation and opportunities to improve our services requires risk taking and changes in delivery / strategy)

³ Generally the Section 151 officer and the Audit Committee or equivalent

- § what will stop you from getting there (the risks - managers need to know the boundaries to work in and what you want them to do if they want to step out of these)
- § what needs to be done (actions / controls that take a proportionate response to a risk)

It uses the similar techniques as a risk based approach but with a different focus and understanding that the *risk appetite* may vary for the activity.

A Health Check / Management Assurance

We obtain direct management assurance, evaluating their responses to some key diagnostic questions on systems, obtaining an insight to how risks are being managed and controls operated. Further evidence is obtained as necessary to 'test out / confirm' their assertions.

The Health Check is a form of the Objectives Based Audit. As such the purpose of the Health Check is to assess whether appropriate arrangements are in place to achieve the activity's objectives and seize opportunities.

A system based audit assignment

We review a system's end to end processes, evaluate and test its risks and controls, recommending control improvements. This tends to be used on financial and due diligence systems.

Using this approach provides wider assurance on the whole system with testing being undertaken on key risks and control areas.

A proactive counter fraud exercise

Using local and national intelligence we identify systems which are assessed as most vulnerable to the risk of fraud, error or waste. We use analytical tools such as data interrogation software to identify trends, patterns, outliers and other unusual transactions and use these results to target our detailed testing.

This approach tends to contribute to the assurance on financial and due diligence areas as it focuses on compliance and probity.

Regulatory background

The requirement of an internal audit function is contained in The Accounts and Audit Regulations 2003 (as amended) which requires the Council to:

“maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control”

Guidance on the regulations and internal control practices are contained in various CIPFA publications but particularly the Code of Practice for Internal Auditors in Local Government in the UK 2006 (the Code). We operate in accordance with these standards.

Corporate Audit and Risk Management is one of the principle ways the Council gains assurance on the adequacy and effectiveness of it's governance framework and internal control environment⁴ and the extent which the Council can rely on it.

The regulations, and related guidance, also lay down far-reaching requirements on systems of internal control. They require the Council to:

- § Have “a sound system of internal control which include arrangements for the management of risk”;
- § Review the effectiveness of its system of internal audit once a year, and
- § Prepare and publish an Annual Governance Statement.

This strategy will be reviewed annually.

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⁴ The ‘culture’ of the Council determines its control environment and affects employees’ **control awareness**. The control environment is about what importance management attaches to controls and probity. The CIPFA code of Practice for Internal Auditors in Local Government defines the control environment as comprising of governance, risk management and internal control.