

Internal Audit & Risk Assurance Strategy

Internal Audit provides an independent assurance and consulting activity designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised through the UK public sector.

We play a key part in the Council's overall assurance arrangements which are designed to ensure that its governance, risk and control frameworks are working effectively.

This strategy is a statement of how Audit Lincolnshire delivers assurance to our clients, 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 assurance on critical systems and the key risks it faces – supporting the delivery of 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:

- give the opportunity to determine if adequate and reliable assurance is planned and being delivered on the areas of the business that matter most. It also provides the ability to challenge potentially excessive or inadequate assurance.
- help establish the Internal Annual Audit Plan by identifying where more independent assurance is required based on significance and risk of the activity. Internal Audit will continue to have the right to conduct its own assurance activity freely and independently in order to meet its role and remit. However, if we need to provide assurance through our work plans then the reasons need to be clearly understood by the Management Board and Audit Committee.
- be a key source of information to help develop the Councils Annual Governance Statement
- support the work of the Audit Committee
- enable the Head of Audit to produce the annual audit opinion
- streamline and avoid duplication of effort where assurance can be drawn from a third party or other sources eg performance, risk and management assurances.
- help encourage management to take the lead and ownership over the assurance provided on their areas of accountability.

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 UK Public Sector Internal Audit Standards.

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, significant impact on the successful delivery of Council priorities or failure to comply with service legal requirements.
- 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.

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:

- Audit Lincolnshire through our work plans. We provide **independent** assurance on the activity's service delivery arrangements, management of risks, operation of controls and / or performance
- Corporate Functions and Third Party Assurance eg Inspections and / or other assurance functions of the Council (Risk Management, Performance, Programme Management, Health & Safety, Legal, Procurement, External Audit, Inspection results). These functions help support measured risk taking and provide independent information on performance, successful delivery, organisational learning and any emerging risks facing the Council.
- Management Assurance – Provided by the Senior Manager of the activity by responding to some diagnostic questions on service delivery, risks and performance. They are accountable for successful delivery. They set 'the tone from the top' and develop and implement the policies, procedures, processes and controls – ensuring compliance. They are our '1st line of assurance' to prevent things from going wrong, reporting problems and taking remedial action.

- 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.

Our strategy for determining the level of assurance and allocating our resources is also influenced by the Council’s *risk appetite*¹. The Council’s risk appetite is reviewed from time to time to help assess the levels of assurance needed. It is currently assessed as **risk aware and open** *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 – well measured risk taking – willing to take risk with a degree of uncertainty -recognising things will go wrong – learn from mistakes’. The level of *risk appetite* may also vary given the nature of the risk.

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.

To help us triangulate the information contained in the assurance map we also undertake a risk assessment against each activity. This helps us prioritise our work and involves a series of quantitative or qualitative judgements concerning the particular system or area. A copy of our risk assessment methodology is attached in **Appendix A**.

Some areas are fundamental to the running of the Council which we review on a cyclical basis – usually once every 3 years (our due diligence work).

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 within the resources available. In light of this areas of low risk may not be subject to an audit.

The assurance maps and risk assessment is revisited each year as part of the annual planning process.

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 their own authorities and authorities with whom they have contractual or other agreements. For more information on the partnership please follow this link:

¹ The amount of risk that we are prepared to accept, tolerate or be exposed to at any point in time

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:

- 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 requirements², 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 use the most appropriate audit approach for our client – taking into account:
 - The nature of the activity being reviewed
 - The significant risks relevant to the activity
 - The needs of the client
 - The political and management environment – recognising the changing face of public sector service delivery models

The two main audit approaches we use are as follows:

An outcome / risk based approach audit assignment

This approach helps us move away from looking solely at the impact of risk / failure and provides more emphasis on delivery of outcomes. We assess this in the context of its supporting governance framework (which includes risk and internal control).

Instead of solely focussing on the risk our approach considers:

² Generally the Section 151 officer and the Audit Committee or equivalent

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

We use similar techniques as a traditional risk based approach but with a different focus – there is a clear understanding that the *risk appetite* may vary for each service area / subject.

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 copy of our Audit Process is attached in **Appendix B**.

Regulatory background

The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities ‘make arrangements for the proper administration of their financial affairs’.

The Accounts and Audit Regulations 2011, more specifically require that the Council:

- Have “a sound system of internal control which include arrangements for the management of risk”;
- Undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The Head of Internal Audit is required to provide an annual opinion on the Council's governance, risk and internal control environment;
- Review the effectiveness of its system of internal audit once a year. The Council's Audit Committee undertakes this responsibility;
- Prepare and publish an Annual Governance Statement.

Internal Audit seeks to meet the standards laid down by professional bodies and in particular the UK Public Sector Internal Audit Standards and the associated local government application note published by CIPFA. These standards set the basic principles for carrying out internal audit in the public sector and provide quality criteria against which performance can be evaluated. Policies and practice guidance have been put in place to ensure all staff understand and conform to these standards.

The provision of Internal Audit is the responsibility of the Council; this responsibility has been formally delegated to the Executive Director – Resources & Community Safety (the Council's Section 151 Officer).

Appendix A - Audit Lincolnshire – Planning Risk Assessment Methodology

Value / Volume

This assessment is based on either the cost to the council, the volume of transactions that the activity is handling or a combination of the two

- 0 – Not material
- 1 – Minor importance (up to £100k³ budget and approx. weekly transactions)
- 2 – Important (up to £1m⁴ budget and up to daily transactions)
- 3 – Material (over £1m budget and multiple transactions daily)

Significance

This assessment reflects how important the activity is to the authority and its residents

- 0 – not significant
- 1 – Minor significance
- 2 – Significant
- 3 – Very significant

Audit rating

- 0 – recent review no significant findings (full / substantial)
- 1 – Recent review with findings (limited)
- 2 – Not recently reviewed (3 years)
- 3 – Recent review – number of significant findings (No assurance)

Sensitivity / Profile

This assessment is about the impact if things went wrong, how much interest would there be and how much would this impact on reputation

- 0 – low (internal system)
- 1 – Medium profile
- 2 – High profile

Changes to people / systems

- 0 – no changes
- 1 – Minor changes
- 2 – Significant changes
- 3 – New system or team

Other assurance

Other assurances we have identified during the mapping process and how much reliance we can place on these.

- 0 – high level of assurance – e.g. Snr mgmt. oversight / management reporting / activities / external review / scrutiny
- 1 – Moderate level of assurance – management assurance
- 2 – Low level of assurance – new area – assurance unknown – emerging risk

Risk score		Risk score		Risk score	
1	Low	7	Med	12	High
2		8		13	
3		9		14	
4		10		15	
5		11			
6					

³ £500k for County

⁴ £5m for County

Appendix B - Audit Process

Our approach to the delivery of internal audit is underpinned by the framework illustrated below:

