Veritau
Assurance Services for
the Public Sector

Internal Audit Strategy

Updated December 2009

Purpose

This strategy has been prepared in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. It sets out how internal audit services will be delivered and developed in accordance with the terms of reference of client organisations, and how the service links to organisational objectives and priorities.

Objectives of Service

The overall objective of internal audit services provided by Veritau is to contribute to the effective operation of its client organisations by providing an independent and objective opinion on their control environment. In fulfilling this, its responsibilities include:

- providing assurance on the effectiveness of governance arrangements and the control environment

- reporting on the probity, legality and value for money of arrangements for service delivery

- reviewing systems of control and recommending improvements where necessary

- advising on counter fraud arrangements, and actively investigating allegations of fraud.

Opinion on the Control Environment

On an annual basis a formal report setting out the Head of Internal Audit's opinion on the control environment will be presented to the relevant committee of each client organisation. The opinion will be based on audit work undertaken, and it is therefore essential that this work forms a sound basis from which to draw conclusions. To ensure this, the company will:

- prepare and deliver a risk based audit plan that includes all aspects of risk facing the organisation (ie not just financial risk)

- plan, manage and carry out audits in accordance with the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government in the

United Kingdom and the company's own internal operating procedures, to ensure that work is undertaken with due professional care

- maintain good relationships with managers, partners, external audit and other review agencies

- ensure staff are competent, provided with appropriate training and professional development

- ensure an effective and efficient internal audit service is provided through performance management, monitoring and benchmarking

In developing audit plans and in forming an opinion, the Head of Internal Audit will determine the extent to which reliance can be placed on the work of other auditors (for example within partner organisations) or the results of work undertaken by external inspectors, and what work is required to be undertaken by Veritau.

Consideration of Risk

Audit plans will be risk based. The basis for the assessment of risk may be the client organisation's own risk registers, a separate audit risk assessment or a combination of both. Where a review of risk management arrangements within a client organisation identifies a high level of risk maturity, reliance will be placed on the risk management systems and risk registers. Where the level of risk maturity is lower, audit work will be based on a separate audit risk assessment which will make reference to risks identified in organisational risk registers, as appropriate. In the longer term the service will seek to place greater reliance on client risk management systems and risk registers.

Where it is necessary to complete an audit risk assessment this will take account of the following criteria:

- materiality

- complexity

- fraud and corruption

- stability

- management arrangements

- control environment

- inspection regime outcomes

- reputation

Further details of the risk assessment criteria are provided at appendix 1.

Risk assessment and planning will be undertaken on a continuous basis. This means that priorities for audit may change during the course of each year, as risks are constantly changing. However, indicative audit plans for clients will be drawn up at the start of each year and these will be varied as required to take account of emerging issues and changes in risk (in consultation with the client).

Consultation with senior managers within client organisations, review of local risk registers, and ongoing monitoring of internal management and committee reports will form part of the risk assessment and planning process to ensure that significant national and local risks are taken into account. Other resources such as audit networks, professional bodies guidance, and subscription to information services will also be used to identify emerging issues to be considered as part of the risk assessment.

Model of Service Delivery

Veritau will provide the majority of audit and related work directly. External parties may be employed by the company to provide support in specialist areas, for example the provision of IT audit expertise. However, in the longer term, Veritau aims to develop in-house expertise to enable specialist work to be provided internally (subject to demand) to provide best value for money for the company and its clients.

Resources and Skills

Previous experience of risks, consideration of the control environment, and other relevant factors will be used to calculate initial assessments of resource requirements. As part of the continuous risk assessment and planning process, a calculation of required resources will be undertaken. If resources are insufficient to enable review of areas considered to be a priority then this will be reported as required within client organisations. Resource requirements will be monitored as risks/priorities change.

On an ongoing basis the company reviews the skills and experience of staff to ensure these meet the needs of services to be provided to client organisations. Systems to regularly appraise staff, identify training and development needs, and deliver training are in place to ensure that required competencies are developed and in order to deliver audit work in line with client expectations and the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom. Where necessary, specialist skills may be procured by the company to meet current requirements.

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5 is high 1 is low	Weight	Criteria	SCORE				
			5	4	3	2	1
Materiality	3	• Financial transactions	Annual income/ expenditure over £2M		Annual income/expenditure over £500k but less than £2m		Annual income /expenditure less than £500k
		• Volume of transactions	Volume of transactions over 10,000 per annum		Volume of transactions between 1,000 and 9,999		Volume of transactions less than 1,000 per annum
		• Quality of budgetary control arrangements	Very poor. Non-existent or inadequate budget monitoring systems and arrangements. Little or no regular monitoring and frequent material budget variances.	Poor. Budget monitoring systems exist but often ineffective. Limited budget monitoring and performance often outside acceptable limits.	Satisfactory. Budget monitoring systems exist but not always effective. Actual performance often within acceptable limits	Good. Budget monitoring systems exist and generally effective. Actual performance normally within acceptable limits	Excellent. Fully developed and effective budget monitoring systems and arrangements. Actual performance always within acceptable limits.
		• Pupil Numbers	500+	250-500	200-250	150-200	0-150
		• Turnover (Income plus expenditure)	£2M+	£1.5M-£2M	£1m-£1.5M	£500k-£1M	£0-£500K
Complexity	3	• Processing Routines	Highly complex and requiring detailed technical knowledge to operate. Likely to involve more than one IT application and many staff. Significant scope for error.	Complex. Likely to involve one or more IT applications. Detailed technical knowledge required to operate. Errors likely to occur.	Some complexity. Likely to be based on one IT application. Some detailed technical knowledge required to operate. Errors may occur but unlikely to be significant.	Relatively simple. Likely to be based on manual process or one IT application. Limited knowledge required to operate. Errors may occur but unlikely to be significant.	Simple. Manual process requiring only a limited number of staff. No detailed knowledge required to operate.

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5 is high 1 is low	Weight	Criteria	SCORE				
			5	**4**	**3**	**2**	**1**
		• Number of staff employed	Over 200	Between 100 and 200	Between 50 and 100	Between 10 and 50	Less than 10
		• Type of establishment	Secondary		Primary Special		Adult Learning
Fraud and Corruption	1	• Significant cash handling operation, • Previous history of problems (fraud investigations, and/or thefts) • Existence of valuable assets • Poor asset security • High staff turnover • Low staff morale • Close relationships between officers and contractors • Poor regard to standards and regulations	High inherent risk. Fraud investigation conducted and/or financial irregularities found within the last five years. High staff turnover and/or low morale.		Medium inherent risk. Some minor financial irregularities discovered or suspected. Normal levels of staff turnover.		Low inherent risk. No actual or suspected fraud or financial irregularity.

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			5	**4**	**3**	**2**	**1**
Stability	2	• System stability • New service area • Changes in key staff	Major system change and / or new service area. Changed management arrangements or service reorganisation. Very high staff turnover.	Changes to systems and / or service responsibilities. High staff turnover.	Some changes to systems and / or service responsibilities. Normal levels of staff turnover.	Some limited changes to systems and / or service responsibilities. Lower than normal levels of staff turnover.	Highly stable. No changes to systems or management arrangements.
		• Reserves/Deficit	Reserves £150+ or Deficit £100k+	Reserves £100k -£150k or Deficit £50k-£100k	Reserves £50k-£100k or Deficit £0-£50k	Reserves £20k-£50k	Reserves £0-£20K
Management Arrangements	1	• Reporting arrangements • Local systems	Very poor. Non-existent or inadequate management, service planning and performance monitoring systems and arrangements. Performance targets not set.	Poor. Management arrangements considered to be ineffective. Performance targets set but generally not achieved.	Satisfactory. Service planning and performance management arrangements exist but not always effective. Actual performance often within acceptable limits	Good. Service planning and performance management arrangements exist and generally effective. Actual performance normally within acceptable limits	Excellent. Fully developed and effective service planning and performance monitoring systems in place. Actual performance always within acceptable limits.
		• External bodies control assessment	No opinion available or Unsatisfactory	Poor	Satisfactory	Good	Very Good

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			5	4	3	2	1
Control Environment	3	• Recent audit findings • Senior Manager opinion • Existence of adequate strategies, policies and procedures • Quality of direct supervision and management • History of under/over spends • Existence and adequacy of written procedures	Very poor. Non-existent or inadequate control framework. No written procedures and history of significant errors, under performance and/or system failures.	Poor. Control framework ineffective. Written procedures may exist but inadequate. Errors, under performance and/or system failures often occur.	Satisfactory. Control framework exists but not always effective. Actual performance often within acceptable limits.	Good. Control framework exists and generally effective. Actual performance normally within acceptable limits	Excellent. Fully developed and effective control framework. Actual performance always within acceptable limits.
		• Audit Opinion	No assurance	Limited assurance	Moderate assurance	Substantial assurance	High assurance
		• Time Since Last Audit	36+ mths	30-36 mths	18-30 mths	12-18 mths	0-12 mths

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			5	**4**	**3**	**2**	**1**
Risk Management Assessment (Magique)	3	• Assessment of risks identified, quality of control framework and/or action plan	See Magique				
Inspection Regime	2	• Views of Audit Commission (and, or other review agencies)	No opinion available or Unsatisfactory	Poor	Satisfactory	Good	Very Good
		• Time since last OFSTED visit	36+ mths	30-36 mths	18-30 mths	12-18 mths	0-12 mths
Reputation	2	• Vulnerable adults/children • Potential press interest • Environmental • Health & safety • Member and officer conduct	Highly sensitive area where there has been recent negative press interest and/or involves care of the vulnerable (children, elderly, disabled)	Sensitive area involving topical issues (environment, waste disposal) and/or care of the vulnerable with potential for negative press interest.	Some scope for interest but any damage to reputation likely to be limited in duration and / or impact.	Area of moderate sensitivity. Some limited issues but unlikely to result in significant interest and / or damage to reputation.	Very low risk. No history of member / public / press interest or damage to reputation.