

Sevenoaks District Council
Internal Audit Strategy
2016



SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

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1. INTRODUCTION

1.1 The requirement for an Internal Audit function within Local Government is set out on Regulation 5 of the Accounts and Audit Regulations 2015, as follows:

“A relevant authority must undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector Internal Auditing standards or guidance”.

1.2 Regulation 3 of the Accounts and audit regulations requires the Council to have “sound system of internal control” which:

- a. facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- b. ensures that the financial and operational management of the authority is effective; and
- c. includes effective arrangements for the management of risk.

1.3 The responsibility for maintaining effective systems of internal control within Sevenoaks District Council, [“the Council”] lies with the Chief Finance Officer.

1.4 The purpose of Internal Audit is to provide independent and objective assurance to the Council regarding the effectiveness of the Council’s risk management, internal control and governance processes, and their application by management, in delivering the Council’s stated objectives.

1.5 The purpose of this Strategy therefore, is to set out the parameters regarding how Internal Audit will deliver on its purpose and duties; and the resources it will deploy in delivering an appropriate level of assurance to the Council, within an added value context.

2. Internal Audit Partnership and Vision

2.1 The Internal Audit Service is a partnership between Sevenoaks District Council and Dartford Borough Council, which has been in existence since April 2010. However, this Strategy deals predominately with Sevenoaks District Council.

2.2 The development of the Internal Audit Partnership brings together the professional disciplines and benefits of streamlining Internal Audit Services across partnering organisations.

2.3 The Partnership blends together the individual requirements of participating organisations and synergies, to achieve efficiencies, during a period of austerity, to facilitate effective service delivery and resilience in delivering a modern risk based Internal Audit service.

2.4 The partnership has ambitions to strengthen its approach, by employing modern electronic Audit Management and Interrogation Tools, and other

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innovations, in order to improve quality and performance and to deliver added value outcomes for its partners.

2.5 The Internal Audit partnership has a vision to deliver:

2.6 A collaborative and innovative Audit Partnership, which is customer focussed and aligned to the business needs and objectives of the Council, leading to improved and quantifiable outcomes; through:

- Developing closer understanding of customer needs and expectations
- Improved competencies of its staff through training and development
- Developing a robust but simplified assurance and opinion process, which aspires to best practice
- Delivering added value and quantifiable outcomes for its stakeholders
- The Internal Audit Partnership is structured to maximise its shared expertise and resilience across the partnering organisations:

3. Internal Audit Strategy

3.1 The Council’s Internal Audit Strategy 2016/2017 will be presented to the Audit Committee, which is the relevant oversight committee responsible for overseeing the work of Internal Audit.

3.2 This Internal Audit Strategy is a high level statement on how Internal Audit will deliver audit services to Sevenoaks District Council. It lies side by side with the Internal Audit Charter and links to organisational objectives and priorities. This document incorporates and combines the in-house management and audit resources of the Sevenoaks District Council and Dartford Borough Council Internal Audit Partnership and documents how the Audit Risk and Anti-Fraud Manager will deliver assurance to Sevenoaks District Council.



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- 3.3 The key elements considered when developing the Strategy are depicted in the above diagram.
- 3.4 This Strategy will be approved, but not directed by, the Audit Committee for Sevenoaks. It will be reviewed annually. Any material changes to the Strategy will be required to be approved by Senior Management and the Audit Committee.
- 3.5 The Strategy sets out how the Council's Internal Audit Service will be managed, delivered and developed in 2016/17 to facilitate:
- delivery of an Internal Audit opinion on Sevenoaks District Council's internal control, risk management, governance arrangements and to inform the annual governance statement;
 - audit of Sevenoaks District Council's internal control, risk management and governance systems through the risk based Internal Audit plan, in a way which affords due consideration to the Council's key objectives and significant risks;
 - 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 Public Sector Internal Audit Standard's and Professional Guidance;
 - effective cooperation with the External Auditors and other external review bodies; and
 - on-going provision of assurance and advisory services by Internal Audit.
- 3.6 This Strategy is based on the Risk Based Internal Auditing ["RBIA"] concept. This means Internal Audit activity will be closely linked to the Council's overall risk management framework and therefore its key priorities and objectives, enabling Internal Audit to provide reasonable assurance regarding effectiveness of how the Council's risks are being managed to deliver on its stated objectives.
- 3.7 In the published Sevenoaks District Council Corporate Plan 2010 to 2015, the Council has identified the following five key priorities that underpin the Council's objectives:
- To provide Value for Money
 - To work in partnership to keep the District of Sevenoaks safe
 - To collect rubbish efficiently and effectively
 - To protect the Green Belt
 - To support and develop the local economy
- 3.8 The RBIA methodology ensures that Internal Audit effort will be aligned with the Council's key priorities in planning and performing its work.

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3.9 The ARAFM is responsible for ensuring that the Internal Audit Strategy is reviewed annually and that the Audit Committee approves any significant amendments to the Strategy.

4. INTERNAL AUDIT TERMS OF REFERENCE

4.1 Purpose

4.1.1 Internal Audit Terms of reference sets out the Purpose, Authority and Principal Responsibility of Internal Audit within Sevenoaks District Council [the Council]

4.1.2 Internal Audit is identified as: “an independent, objective assurance and consulting activity designed to add value to improve the operations of the Council. It assists the Council to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Council’s risk management, control, and governance processes”.

4.1.3 Internal Audit may also provide independent and objective advice in order to assist management to improve the Council’s control environment and value for money.

4.1.4 Internal Audit may also provide specialist skills and knowledge to assist in, or lead on 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

4.1.5 Internal Audit aims to provide high quality services that:

- adds 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 Chief Finance Officer in the discharge of his duties as proper officer for Sec 151 responsibilities
- are innovative and constructively challenging, shaping the values and standards of the Council; supporting and promoting the need for sound internal controls; effective risk management, governance 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

4.2 Statutory framework

4.2.1 Internal Audit is a statutory function within the Council.

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4.2.2 The requirement for an Internal Audit Function for local authorities is implied by Section 151 of the Local Government Act 1972 (S151), which requires that authorities “make arrangements for the proper administration of their financial affairs.” Regulation 5(1) of the Accounts and Audit (Amendment) Regulations 2015 specifically requires “A relevant authority must undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance”.

4.2.3 Regulation 5 (1) of the Accounts and Audit Regulations sets out that the standards which Internal Audit should take into account are the Public Sector Internal Audit Standards and Professional Guidance by CIPFA.

4.3 Accountability

4.3.1 The Audit, Risk and Anti-Fraud Manager (ARAFM) reports to the Chief Finance Officer 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.

4.3.2 The ARAFM has direct access to the Chief Executive as Head of Paid Service and carries the responsibility for the proper management of the Council and; for ensuring that the principles of good governance and sound ethics are reflected within the Council’s management arrangements.

4.3.3 The ARAFM has direct access to the Council’s Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards.

4.3.4 Where it is considered necessary to the proper discharge of Internal Audit functions, the Audit, Risk and Anti-Fraud Manager has direct access to elected Members of Sevenoaks District Council and in particular, those who serve on the committee charged with governance (Audit Committee).

4.3.5 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.

4.3.6 The Audit, Risk and Anti-Fraud Manager must be satisfied that management accepts accountability for, and provides an adequate response to issues raised through Internal Audit’s work. When the ARAFM is not satisfied, the matter will be escalated to the relevant Chief Officer, Chief Executive and/or the Audit Committee.

4.4 Scope

4.4.1 The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council’s governance, risk management and internal control processes in

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relation to the Council's defined goals and objectives. Internal control objectives considered by Internal Audit include, but are not limited to:

- Consistency of operations or programs with established objectives, policies, goals and performance targets
- Effectiveness and efficiency of operations and deployment of resources.
- Compliance with significant policies, plans, procedures, laws and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify and report such information.
- Safeguarding of assets from Fraud, Irregularity and Mismanagement.
- Work in collaboration with the Council's partners and other bodies in protecting the Council's interest in delivering shared objectives

4.4.2 Review the effectiveness of the Council's risk management framework and compliance with its core principles; in particular, resources will be devoted to any aspects effecting material changes to the Council's risk profile, governance or internal control processes.

4.4.3 Internal Audit will liaise and co-operate with other bodies to manage the risk of Fraud and Irregularities

4.4.4 Internal Audit is responsible for evaluating all processes within the 'audit universe' of the Council, including governance processes, management information and risk management processes.

4.4.5 Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified during audit work to the Audit Committee and to Management, including fraud risks, governance issues and other matters needed, or requested by the Audit Committee.

4.5 Key Responsibilities

4.5.1 Chief Officers 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 within their respective remits.

4.5.2 The Audit, Risk and Anti-Fraud Manger is responsible for the management of professional Internal Audit service, which follows the Public Sector Internal Audit Standards and relevant professional guidance in providing support and guidance to Senior Management in the effective discharge of their responsibilities.

4.6 Independence

4.6.1 Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional

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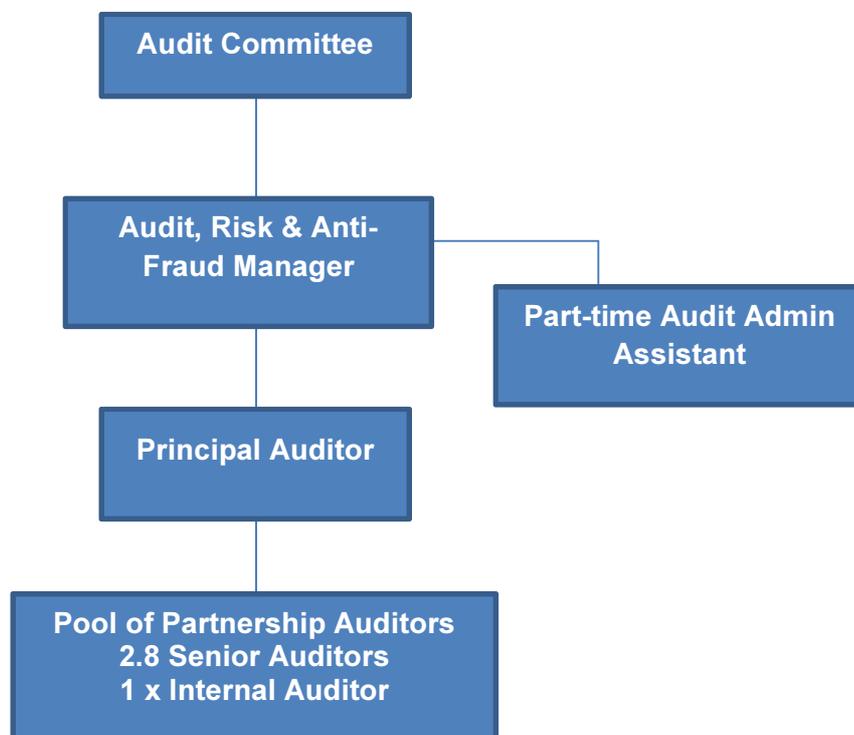
judgements and advice. In practice, independence will be achieved through Internal Audit:

- 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 interest declarations confirming compliance with rules on independence, conflicts of interest or acceptance of inducements; and
- ensuring the planning process recognises and addresses potential conflicts of interest through Internal Audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles

4.7 Internal Audit Resources

4.7.1 The Internal Audit service is an in-house service, which currently incorporates and combines staffing resources from Dartford Borough Council and Sevenoaks District Council to provide a shared audit service. This arrangement enables the Councils to maximise resilience and efficiency in providing an effective Internal Audit service.

Internal Audit Governance Structure



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- 4.7.2 The above diagram depicts the Internal Audit staffing resources and governance and underscores its independence.
- 4.7.3 The Audit, Risk and Anti-Fraud Manager will be professionally qualified (CCAB/ CMIIA 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.
- 4.7.4 The Chief Finance Officer will provide the ARAFM with the resources necessary to fulfil the duties and responsibilities of the Internal Audit function, in meeting the Council's requirements and expectations towards delivering an effective Internal Audit service.
- 4.7.5 The ARAFM will appoint staff with the range of knowledge, skills, qualifications and experience required to deliver the audit Strategy to the standards laid down in the PSIAS and guidance issued by CIPFA.
- 4.7.6 Where appropriate, the ARAFM will engage agency staff to provide specialist Internal Audit reviews, for e.g. IT or specialist computer auditor, to provide an appropriate level of assurance.
- 4.7.7 If the ARAFM, Audit Committee or Members of the Strategic Management Team 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 professional standards (PSIAS/CIPFA Guidance) is prejudiced, they will advise the Chief Finance Officer, accordingly regarding their views on the robustness and scope of the Internal Audit opinion.
- 4.8 Rights of Access
- 4.8.1 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 for the purposes of carrying out an audit review or special investigation.
- 4.8.2 Internal Audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. In conducting routine work from the annual plan, Internal Audit will give prior notification to ensure that the appropriate access can be obtained and availability of relevant documentation or source data.
- 4.8.3 For special investigations, such access shall be granted on demand and not subject to prior notice.
- 4.9 Due Professional Care
- 4.9.1 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 would be designed to enable them to

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provide reasonable assurance regarding the controls examined within the scope of their review.

- 4.9.2 Internal Auditors will have a continuing duty to develop and maintain their professional skills, competencies, knowledge and judgement based on appropriate training, ability, integrity, objectivity, respect and effective communication.
- 4.9.3 Internal Auditors will apprise themselves of the Public Sector Internal Audit Standards and the Professional Guidance by CIPFA and; will work in accordance with such guidance.
- 4.9.4 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 ARAFM in accordance with the Council's laid down procedures.
- 4.9.5 Internal Auditors will treat the information they receive in carrying out their duties confidentially. The ARAFM is responsible for determining an Access Policy to outline the parameters for authorised disclosure of audit information, files and records. There will be no 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 or for any other purpose, other than that required to fulfil the Internal Audit engagement activity.
- 4.10 Reporting to Third Parties
 - 4.10.1 Subject to the prior approval of the Chief Finance Officer the ARAFM may agree to provide an opinion to a third party on an internal control, risk management and governance e.g. partner organisations.
- 4.11 Relationships
 - 4.11.1 Internal Audit recognises that good working relationships and effective communication are key to the delivery of its work in a productive and efficient manner. As such, Internal Audit will seek to work and co-operate with both internal and external partners, including management, Members, external auditors and inspectorates.
 - 4.11.2 The Audit, Risk and Anti-Fraud Manager will consult with senior management during audit planning, and be available at the request of the Chair of the Audit Committee. He will present progress reports to regular meetings of the Audit Committee and assist the Chair and Committee Members in fulfilling their governance role and terms of reference.
 - 4.11.3 The Audit, Risk and Ant-Fraud Manager will discuss and agree a communications protocol with the District Auditor, or appropriate representative, which will facilitate co-operation between Internal and

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External Audit, in order to minimise duplication of audit effort and to improve understanding of the risks faced by the organisation. Where appropriate, Internal Audit will place reliance on work carried out by external audit (and other external review agencies) as part of the assurance framework

4.11.4 With regard to other regulators and inspectors, the Audit, Risk and Anti-Fraud Manager will seek to establish a dialogue with such agencies with a view to improving understanding and exchanging of relevant information, in consultation with the Section 151 officer.

4.11.5 The Audit, Risk and Ant-Fraud Manager and other team members will also maintain dialogue and networking with other professionals both within Kent and relevant professional bodies.

4.12 Ownership of Documentation

4.12.1 Internal Audit files and working papers, which demonstrate compliance with professional standards, are the property of the Council.

4.12.2 Internal Audit's data retention policy on the archiving and secure destruction of audit files requires that all audit files are retained for a period of four years (three plus the current) except for those papers used in the course of fraud investigation which will be retained for a period of six years after legal proceedings have been completed. An annual programme is in place for the secure destruction of files once this time has elapsed.

4.13 Implementation of the Strategy

4.13.1 Mission Statement: the mission of the Internal Audit service is:

“To support the Council's key objectives in delivering its High Level priorities and Operational Services, by providing an independent and objective evaluation of the Council's ability to accomplish its Corporate Plan and Business Unit objectives, and suggests constructive added value proposals to facilitate their effective delivery, through a risk based review framework”

4.13.2 The ARAFMs 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 and will be reviewed annually.

4.13.3 The Strategy will be implemented through the determination and delivery of risk-based annual Internal Audit plan, developed in consultation with the Chief Finance Officer, approved by Strategic Management Team and the Sevenoaks Audit Committee.

4.13.4 The key driver for assurance will be the risk based Annual Internal Audit Plan which will be designed to enable the ARAFMs to deliver annually, an

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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.

- 4.13.5 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 will be responsive to the priorities and concerns of the Strategic Management Team and the control environment.
- 4.13.6 Where appropriate, reviews of key systems will receive a reduced scope review, where recent Internal Audit evidence shows consistency in risk management, governance and internal control processes, as reflected in recent Internal Audit opinions.
- 4.13.7 In the conduct of its responsibilities, Internal Audit will operate in accordance with the Public Sector Internal Audit Standards and guided by professional guidance issued by CIPFA and the Institute of Risk Management.
- 4.14 Review of the Internal Audit Terms of Reference
- 4.14.1 These Terms of reference will be reviewed annually and the ARAFMs will advise the Audit Committee on their content and the need for any subsequent amendment

5. Internal Audit Services

- 5.1 The full range of Internal Audit services are set out below. The approach to be adopted when conducting an Internal Audit engagement will be determined by the ARAFMs and will be dependent upon, the circumstances; in particular, the degree of assurance required, the significance of the objectives under review towards delivering the Council's priorities, inherent risks, the level of existing controls and available resources.

The range of services includes the following:

- 5.2 Risk Based System Reviews - 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 will be 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. This allows us to test only a sample of transactions and still draw conclusions about how well procedures are working in the Council. Examples of the types of controls we expect to see in place are as follows:
- up-to-date procedure notes, so that staff are aware of the procedures they should be following
 - separation of duties and third party checks, so that staff act as checks on each other's actions

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- effective supervision, so that quality is maintained and that any problems are promptly identified and addressed
- reconciliations between financial records and other records held, to confirm the accuracy of the financial records
- access to records is limited to those who are authorised to use it for pursuance of Council business
- effective review of exception reports and other management information

5.3 Compliance Audits - Examination of financial records for compliance with agreed policy, regulations, and procedures.

5.4 Systems-based Audit - Where appropriate, Audit may undertake wider documentation, evaluation and testing of financial, operational and management information systems providing an opinion as to the adequacy of control and offering suggestions and advice to enable strengthening of system weaknesses and to assist in the improving the effectiveness of controls.

5.4.1 Systems based auditing provides high quality assurance on management controls for those systems evaluated externally.

5.4.2 Our systems-based audit work is based on the CIPFA System Control Matrices. The matrices draw on the approach, standards, and guidance of a variety of audit and regulatory bodies, including the External Auditors.

5.5 Contract Audit - As well as reviewing the Council's Contracts Register, we advise on tendering procedures and compliance with legislation and regulations. We also follow the progress of the significant contract throughout its life where appropriate and confirm the final accounts have been checked to ensure these are in accordance with the contract and any variation orders. In accordance with guidance from CIPFA, we do not audit final accounts, as we place reliance on the technical staff responsible for managing and monitoring the contracts in compliance with Council procedures.

5.6 Fraud and Corruption - When a loss or potential fraud is brought to our attention or discovered during an audit, we would undertake an investigation in order to determine whether the loss was as a result of an error or deliberate action. Where appropriate, we would make recommendations to improve controls within the system affected by the loss or allegation.

5.6.1 We would review fraud controls and detection processes to ascertain their effectiveness

5.6.2 We work closely with the Audit Commission's National Fraud Initiative (NFI) who provides us with 'fraud warnings' and relevant fraud data throughout the year. Where appropriate, we investigate to ensure that fraud found at other organisations is not taking place at Sevenoaks District Council, as part of the fraud risk management process. During the year we carried out investigations

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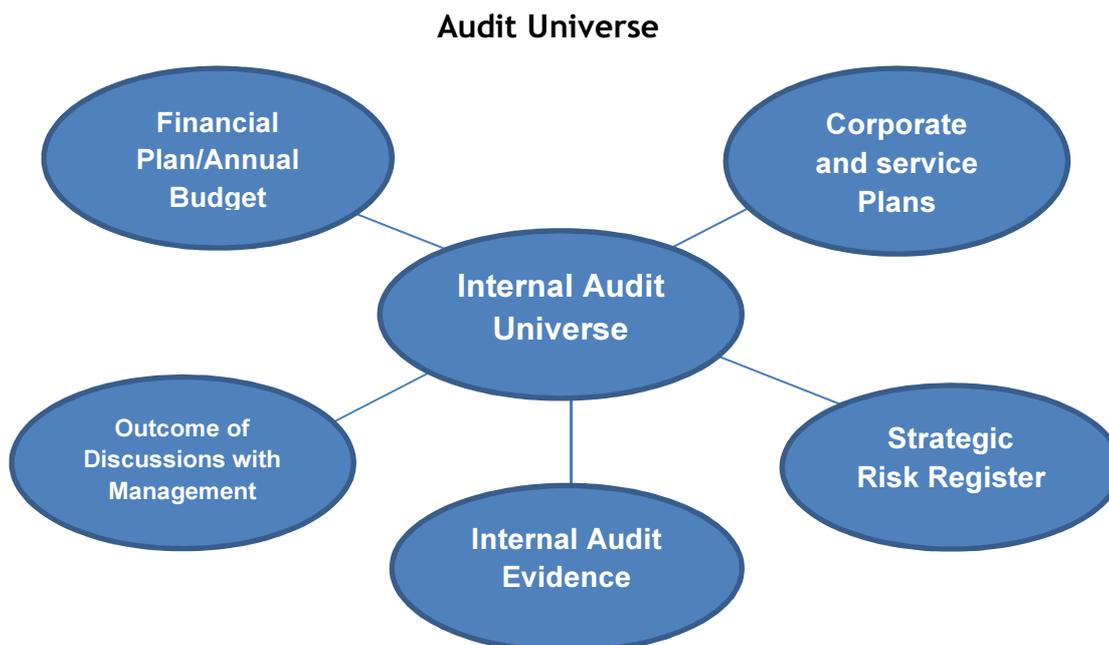
into data matches passed to us by the NFI. There were no significant findings from the matches investigated.

- 5.7 Following up Previous Year's Audits - Follow-up on previous audit recommendations and agreed actions is necessary to enable Internal Audit to assess the effectiveness of the audit recommendations implemented by management to address identified weaknesses in internal controls. When we carry out an audit, we follow up on any previous audit recommendations as part of our review. Where areas are reviewed annually this means that recommendations are usually followed up the year after they are made. However, where the audit opinion is unsatisfactory, follow-up would be carried out within 3 to 6 months of the review or sooner, where appropriate.
- 5.8 Advisory Services - We offer advice, information and assistance to all levels of management on internal control, governance and risk management either through formal review and reporting or more informally through discussion or briefing, on framework of internal control, risk management, governance and the Annual Governance Statement process. However, would not be appropriate for auditors to become involved in establishing or implementing controls or to assume operational responsibilities. Advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work. In addition Internal Audit may undertake consultancy in accordance with the terms set out in the Internal Audit Charter.
- 5.9 IT Audit - IT audit is a specialist area and in previous years the work has been undertaken by external consultants working under local management.
- 5.10 VFM Audit - Value for money considerations will be factored into our approach where relevant and appropriate. This would enable us to determine whether managers are making use of the opportunities and resources available to them for obtaining good value for money.

6. Developing and Delivering the Annual Internal Audit Plan

- 6.1 The Audit. Risk and Anti-Fraud Manager will define the audit universe from the Council's key priorities and delivery framework (Corporate/Service Plans, Strategic Risk Register etc.), ensuring that it contains the key activities and service business units, key processes, projects, performance and compliance issues significant to the Council's strategic direction, high level priorities and goals. Definition of the audit universe will enable Internal Audit to prioritise its workload to facilitate reliable and effective provision of the annual audit opinion and demonstrate support for the annual governance statement process.

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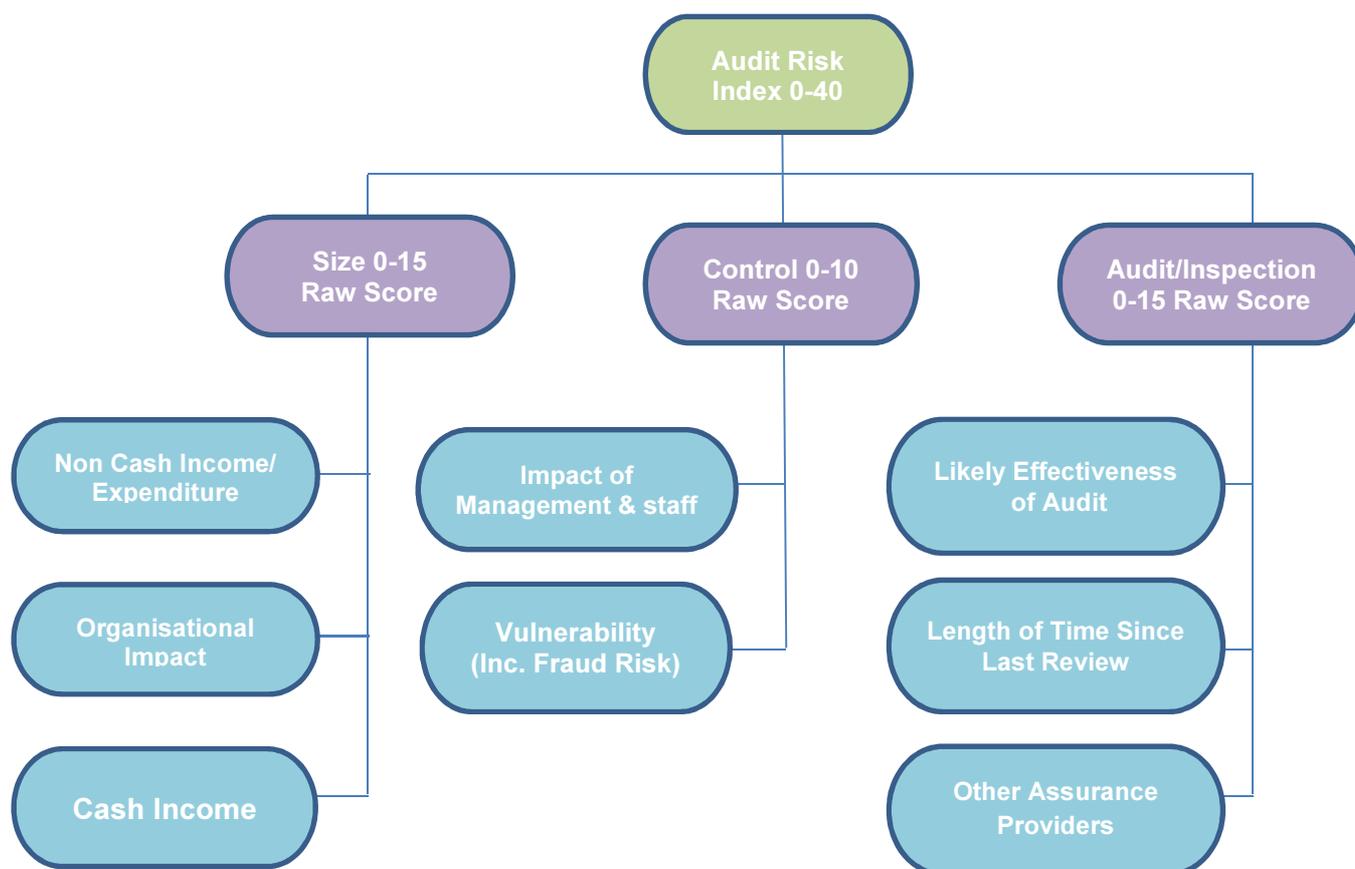
The above diagram depicts input into the Audit Universe

- 6.2 The PSIAS requires that a risk-based plan is used to determine the priorities of the Internal Audit activity, consistent with the organisation's goals.
- 6.3 The ARAFM will develop a risk-based annual Internal Audit plan, which is informed by the audit universe and which will take into account the Council's risk management framework, including risk appetite levels set by senior management for the different activities, or parts of the organisation.
- 6.4 Where gaps exist within the Council's risk assessment process, the ARAFM will use his own judgment of risks after consideration of input from senior management and the Audit Committee.
- 6.5 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 Strategic Management Team. Amendments will be identified through Internal Audit's ongoing contact and liaison with senior management and those charged with governance of the Council.
- 6.6 Identifying Audit Needs

A structured risk indexed based as depicted on the diagram below, will be used to compile an audit risk assessment, which will inform the annual Internal Audit plan.

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Audit Risk Index



6.7 Rationale for Annual Audit Plan

6.7.1 Given the risk maturity of the Council and in view of the dynamic nature of the environment within which local government operates, it is not proposed to have a three year rolling strategic plan, as the resources required to facilitate this will not be justified by the uncertainties posed by the speed and volatility of changes within the environment.

6.7.2 Resources will be more effectively deployed by utilising the key advantages of a risk based annual planning approach, which will focus on the key risk areas in order to provide assurance to reflect the existing risk profiles on an annual basis and subject to in-year review, to reflect material changes and assurance needs, as necessary.

6.8 Producing the Annual Plan

6.8.1 The annual assurance plan will be derived from the audit needs assessment, based on the level of assessed risks in relation to the Council's risk appetite matrix. Inclusion in the annual Internal Audit plan will be based on risk prioritisation in line with the audit risk index and available resources.

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- All High risks processes or systems will be automatically included within the annual Internal Audit plan.
- Medium risks systems, or processes will be included within the plan, subject to available resources and senior management priorities.
- Low risk processes will only be considered for inclusion in the annual audit plan, if resources permit and subject to senior management priorities.

6.8.2 Whilst the core audit work will be devoted to high risk systems and processes, some contingencies allocation will be set aside to facilitate unforeseen circumstances or developments during the year.

6.8.3 Other review work, based on criteria other than risk, may also be built into the Plan. These may include grant certification work 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.

6.8.4 A contingency allocation will also be built into the plan for 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 and approved by senior management; and reported to the Audit Committee.

6.8.5 The annual Internal Audit plan will be subjected to approval by senior management and the Audit Committee prior to implementation.

6.9 Delivering the Audit Plan

6.9.1 The work of Internal Audit and its approach regarding how it will conduct engagement activities in order to provide assurance will be governed and informed by this Strategy, the Internal Audit Charter and the Audit Manual, for its day to day activities.

6.9.2 The individual audit reviews set out in the annual plan will be apportioned to respective Internal Auditors, based on their relative skill, experience and qualifications; and shared in such a way as to ensure delivery of the approved annual plan by the end of the financial year.

6.10 Individual Audit Assignments

- Planning The Assignment - Prior to the commencement of an audit, Internal Audit will advise the appropriate Chief Officer, Head of Service and Service Manager on the forthcoming review.
- A scoping meeting will be held between the client and the responsible Internal Auditor to discuss the purpose, objectives, risks, scope and expected timings of the work. These details will be confirmed with the

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- appropriate Chief Officer and Service Manager in the Audit Brief. In the case of special investigations, such prior notification may not be given where doing so may jeopardise the success of the investigation. In such an event, the prior approval of an appropriate Chief Officer may be obtained.
- Auditors will be required to remain within the department or section during field work. During fieldwork, Internal Auditors will consult orally and/or in writing with relevant management to:
 - ensure that information gathered is accurate and properly interpreted;
 - ensure that management are able to provide sufficient information and explanations in order to assist in the formation of a balanced judgement;
 - keep management informed of the progress of the audit;
 - ensure recommendations are cost effective, practicable and agreed with management.
 - where disagreements exist with management regarding audit evidence or findings, these will be recorded and included in the feedback form and the report.
 - Auditors are required to complete all reviews within planned timescales to ensure completion of the audit plan.

6.11 Evidence

- All audit findings, conclusions and recommendations will be evidenced on either an electronic or paper file. Relevant details on which findings and recommendations are based will also be supported by evidence held on file within the relevant Internal Audit section. Audit working papers contain the principal evidence to support the Internal Audit report and they provide the basis for review of Internal Audit work. The Internal Auditors employ an audit methodology which requires the production of working papers which document the following:
 - the audit procedures followed in examining the adequacy and effectiveness of internal controls within the system;
 - the information obtained from these examinations;
 - an evaluation of the information obtained and the conclusions reached;
 - A signed feedback sheet, documenting all recommendations and comments from the auditee;
 - a report detailing the audit findings, audit opinions and audit recommendations;
 - the client management response to the audit report.
- At the end of the fieldwork, a closing or exit meeting will be held with Head of Service or Service Manager to discuss and agree the findings,

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conclusions and recommendations prior to being included in a formal report.

- Lead Auditors are responsible for liaising with management to agree the content of the report and collate management responses to audit recommendations made.

6.12 Supervision and Review Management Review

All files are subject to review by either, the Principal Auditor or the Audit, Risk and Anti-Fraud Manager before feedback is provided to the Auditee. This review ensures that the work undertaken complies with the standards defined in the Audit Manual and the Professional Guidance issued by CIPFA. A Supervisory Review Form is used to document this process and show any required amendments. Any temporary contract auditors will be closely supervised by the Principal Auditor or Audit Manager. All Audit Files will be required to be signed off by the Audit, Risk and Anti-Fraud Manager, to demonstrate compliance with Internal Audit quality standards.

6.13 Audit Feedback and Reporting

- Formal feedback will be provided to the relevant Auditee following completion of the audit fieldwork. Once feedback, or the draft report, including actions to address recommendations is agreed, a draft or final report will be electronically issued within 15 working days to the appropriate Head of Service and Chief Officer.
- Audit reports are designed to be clear, objective, balanced and timely. They are to be constructed in a standardised format which includes:
 - An executive summary;
 - the background of the area subject to audit review;
 - the Auditors Opinion; including an evaluation of the controls in place
 - Detailed findings;
 - A Management Action Plan, detailing all recommendations and priority rankings;
 - Definition of opinions; (See below for details)
 - Definition of risk rankings (see below for details)
- All reports will be reviewed by the Audit, Risk and Anti-Fraud Manager before issue. The draft report will be issued within 15 working days of the feedback meeting. All audits will be followed up 3 to 6 months after completion, depending on the assurance level provided.

6.14 Internal Audit Reporting

The following matrices will be used in Internal Audit reports to record, the overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance.

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Opinions and Priority Ranking of Recommendations

Opinion Formation - Definition of Audit Opinions Levels of Assurance

Opinion	Definitions
Full Assurance (Implies no High or Medium Risk Recommendations)	<p>A sound framework of control is in place that meets the Council's or service objectives. All expected controls tested are in place and are operating effectively.</p> <p>No specific follow-up review will be undertaken; follow-up will be undertaken as part of the next planned review of the system.</p>
Substantial Assurance (Implies no High Risk Recommendations)	<p>There is generally a sound framework of control in place designed to meet the Council's or service objectives. However, there are isolated weaknesses in design of controls, or inconsistent application of controls, which puts the achievement of a limited number of objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken within 3 to 6 months; follow up of low priority recommendation will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses identified within the framework and there exist evidence of non-compliance with Council procedures or good practice, which puts the achievement of the Council's or service objectives in many of the areas reviewed at risk.</p> <p>Follow-up of high and medium priority recommendations only will take place within 3 to 6 months; follow-up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>Absent or non-existent evidence of framework; fundamental weaknesses identified within design; operation of key controls have resulted in failure, or could result in failure to achieve the Council's or service objectives in the areas reviewed.</p> <p>Follow-up of high and medium priority recommendations only will take place within 3 to 6 months; follow-up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

Risk Ranking of Recommendations and Definitions

High	<p>Significant risks exists of any of the following:</p> <ul style="list-style-type: none"> • Failure to achieve objectives • Fraud or irregularities • System breakdown • Material loss of assets • Qualification of the Council's accounts • Significant reputational damage • Failure of Legal compliance <p>Immediate implementation of agreed recommendations is essential in order to provide satisfactory control of serious risk exposures.</p>
Medium	<p>A serious, but not immediate, or significant risk of failure to achieve objectives, system breakdown, or loss etc.</p>

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	Implementation of agreed recommendations within 3 to 6 months is important to provide satisfactory control of risk exposures.
Low	<p>Minor weakness which has no major or serious impact on the achievement of objectives, but where management will benefit from improved risk management, or which presents the opportunity for greater efficiency, or effectiveness.</p> <p>Implementation of the agreed recommendation is desirable, as it will improve overall control, efficiency or value for money.</p>

6.15 Follow up Reporting on Recommendations

- It is the responsibility of the Lead Auditor to ensure that agreed actions arising from an audit report are implemented in accordance with the agreed timetable. Where material weaknesses are identified through audit work which have not been actioned, procedures allow for escalation to Management Team or the relevant committee.
- The implementation of audit recommendations will be further monitored via a Recommendations Action Plan and reported to the Audit Committee.

6.16 Annual Audit Opinion

6.16.1 An Annual Audit Report will be produced by the Audit, Risk and Anti-Fraud Manager which will incorporate an Annual Audit Opinion. The report will be subject to approval by the sec 151 Officer and presented to the Audit Committee. The report will contain details of the work done and any other sources of assurance from which the opinion is derived. It will also be used to support the Annual Governance Statement process.

6.16.2 The basis of the opinion will be based on the outcome of the work completed by Internal Audit during the year, annual internal quality assessments, any external quality review, as well as other sources of assurance (for e.g. external auditor's reports).

6.17 Performance Monitoring

Internal Audit monitors its performance using a series of Key Performance Indicators (PI's). These PI's have been agreed with senior management and the Audit Committee.

6.18 Training and Continuous Professional Development

6.18.1 The Audit, Risk and Anti-Fraud Manger will ensure that appropriate provision is made to facilitate the continuing development of Internal Audit staff in order to maintain professional competence and respond to the developments within the audit profession and senior management expectations.

6.18.2 Professional competence is dependent on a range of skills, attitudes and behaviours, as well as qualifications. A Learning and development plan will be

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produced for the team annually, which will be informed by the appraisal process and organisational needs.

- 6.18.3 As a minimum, staff will be encouraged to acquire relevant professional qualifications, either CCAB or CMIIA and to keep abreast of developments within local government, Internal Audit and risk management. Also staff will be expected to participate in the development of the following soft skills, , interviewing skills, negotiating skills, time management, investigations skills and report writing skills.

7. Quality Assurance

7.1 Internal Quality Review

In compliance with the PSIAS the Audit, Risk and Anti-Fraud Manager will undertake an annual self-assessment of the Internal Audit team using the standard template issued by CIPFA guidance. Any areas for improvement identified will be set out in an action plan. The self-assessment will be presented for Senior Management for approval and to the Audit committee.

7.2 External Quality Review

In addition to the above, an external quality review will be undertaken every five years by an independent firm. The outcome of this review will also be presented to Senior Management and the Audit Committee. Areas for further development identified will form the basis of a quality improvement plan.