

# Internal Audit Strategy

**Parking and Traffic Regulations Outside London Adjudication  
Joint Committee (PATROL AJC)**

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## **PATROL AJC Internal Audit Strategy**

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## **INTERNAL AUDIT STRATEGY**

### **1. Introduction**

- 1.1. Manchester City Council has delivered the PATROL Adjudication Joint Committee's (PATROL AJC's) internal audit service since 2007 and provides an independent opinion on the adequacy and effectiveness of internal control systems. The Lead Authority's Head of Internal Audit and Risk Management agrees the annual audit plan with, and reports to, the Joint Committee and its Head of Service, and has access to all officers and Members. The purpose of this report is to propose a new internal audit strategy designed to deliver full and robust assurance over the PATROL AJC internal control environment.

### **2. Statutory Basis for the Internal Audit Function**

- 2.1. The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972. The corresponding statute is Section 73 of the Local Government Act 1985. The Accounts and Audit Regulations 2003, Regulation 6 specifically requires that Authorities "...shall maintain an adequate and effective system of Internal Audit of its accounting records and of its system of internal control in accordance with proper internal audit practices....". The regulations recognise proper internal audit practices as those contained in the Code of Practice for internal audit in local government in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA Code) which was updated in 2006.

### **3. Definition of Internal Audit**

- 3.1. Internal Audit is an assurance function that provides an independent and objective opinion to the Joint Committee on how effectively its internal control environment supports achievement of the PATROL AJC's objectives. To support this opinion Internal Audit has undertaken an annual programme of risk based audits designed to establish how effectively specific PATROL AJC functions or systems operate.

### **4. External Audit**

- 4.1. External Audit will consider the adequacy of internal arrangements as part of its own assessment of the PATROL AJC's control environment. It also undertakes its own detailed work to support its own annual assurance opinion. Commission expectations are that internal audit arrangements include:
  - an audit strategy;
  - annual review of the effectiveness of the internal audit function;

- a programme of anti-fraud audit work; and
  - formal terms of reference for the internal audit function.
- 4.2. Terms of reference are attached to this document (Appendix 2) for the Joint Committee's consideration. To support its assurance function Internal Audit conduct an annual review of effectiveness which should also provide assurance over its work for the PATROL AJC. The proposed internal audit strategy includes provision for anti-fraud work.

## **5. Audit Strategy**

- 5.1. In recent years the annual audit plan for the PATROL AJC had been determined on the basis of current risk or to support the development of key controls, such as risk management. Sufficient depth and breadth of audit coverage is essential to inform and underpin opinions published in the Head of Internal Audit's Annual Assurance Statement and the Joint Committee's Annual Governance Statement. The new Strategy is designed to provide that assurance through the development of:
- a three-year cyclical audit programme designed to provide assurance over the operation of all key systems under the broad headings of Internal Control, Governance and Risk; and
  - a wider assurance framework through the identification, development and reliance on other key sources of assurance (Appendix 1).
- 5.2. The strategy and supporting three-year plan will be reviewed and revised annually to ensure that it is up to date and reflects current risks. Appendix 3 describes how the strategy will deliver assurance over time to ensure coverage of the whole of the PATROL AJC's responsibilities. The three year strategy for the Bus Lane Adjudication Service JC is also attached at Appendix 5.

## **6. Cyclical Audit Plan**

- 6.1. At the heart of the strategy is a cyclical audit planning process which will plan to deliver a programme of audits over a three-year period through the:
- identification of the PATROL AJC's key systems and strategies;
  - creation of a cyclical, risk-based audit plan to deliver assurance across the PATROL AJC's systems over a three year period; and
  - development of annual audit plans which provide a detailed description of audits to be carried out in each year.
- 6.2. The three-year audit plan for 2010/13 is shown at Appendix 3 and annual plan at Appendix 4. The approach is designed to ensure that all key systems are audited over a reasonable period of time, taking into account

resource constraints, to provide a current, informed opinion on the overall internal control environment. Financial systems will be audited every two years using an alternating cycle of walk-through testing of key controls, smaller sample testing and detailed compliance testing. However, while other business and governance systems will be considered as part of the three year cycle, the precise nature of the audit scope and coverage will vary over time due to the difficulty of determining what work will be necessary in the longer term.

6.3. Within this cyclical plan audit selection will be based on Internal Audit's assessment of risk taking into account the following:

- Risk to delivery of objectives:
  - nature and effectiveness of governance arrangements, including risk and performance management;
  - assurance statements provided by senior managers in support of the Annual Governance Statement;
  - the business planning process.
- Materiality, including:
  - financial value;
  - impact on the PATROL AJC's reputation;
  - the need to demonstrate high standards of behaviour and probity; and
  - the potential in systems and structures for fraud or corruption.
- Audit experience, based on previous audit work, understanding of the system and discussions with service managers.

## **7. Wider Assurance Framework**

7.1. Internal Audit's three-year plan provides an important, but not the sole, source of assurance. Other sources include:

- Members obtain assurance over the effectiveness of key systems through committee review, scrutiny and approval of key decisions, policies, governance arrangements etc.
- The PATROL AJC's senior management team obtain assurance over the operation of key systems through day to day management activity and self-assessment of governance arrangements and financial controls.
- External Audit - We will continue to work with Grant Thornton both to take assurance from their audit work and to ensure that Internal Audit's strategy and supporting audit activity provide an acceptable level of assurance.

## **8. Reporting**

### *Assignments*

- 8.1. As at present, all audit assignments will be the subject of formal reports. Each report will provide an opinion on the adequacy of internal controls and the capacity to improve and may include recommendations designed to address risks. The factual accuracy of the reports, together with any recommendations, will be agreed with the Head of Service via draft reports prior to publication of final reports. Final reports will be submitted to the Joint Committee.

### *Monitoring Reports*

- 8.2. Through the year the Head of Internal Audit will submit regular reports to the PATROL AJC or its Executive Sub Committee advising on:
- Progress against plan including any necessary changes;
  - Any significant control issues identified; and
  - Outstanding recommendations from previous Internal Audit reports.

### *Annual Report*

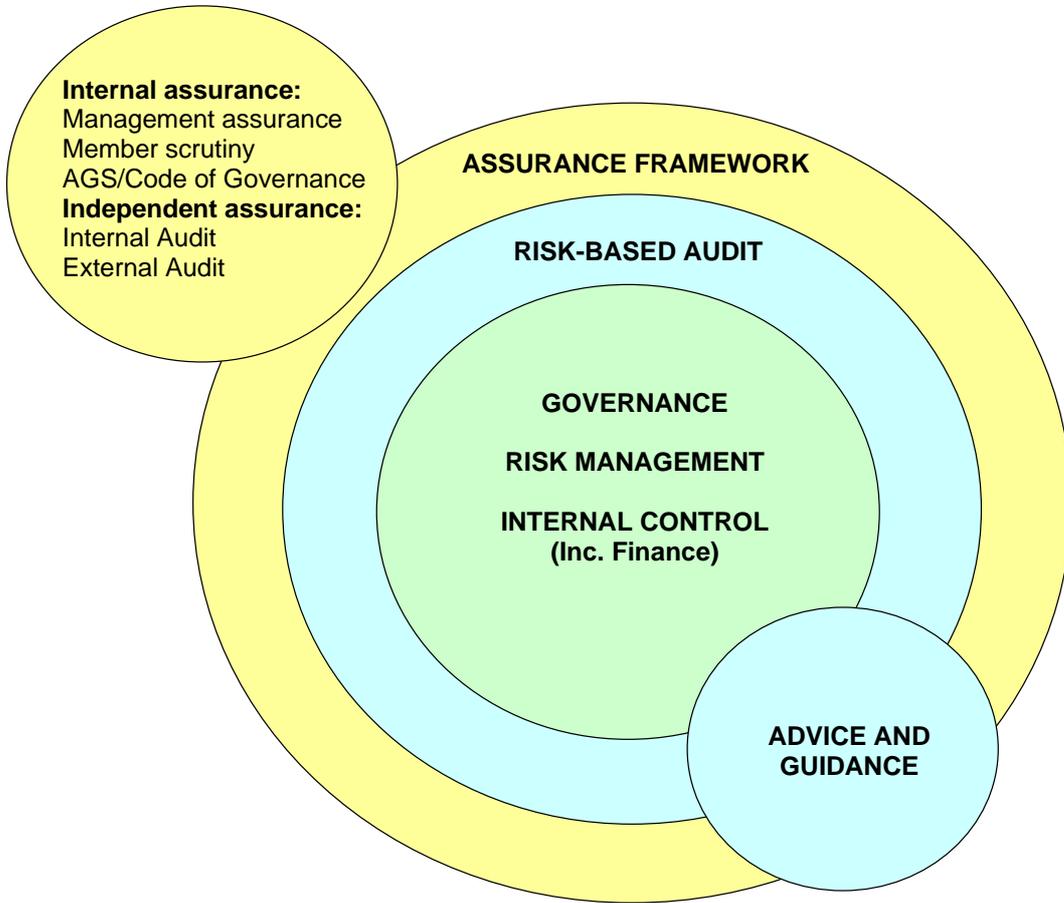
- 8.3. The Head of Internal Audit will prepare an annual report for the Joint Committee which will include:
- an overview of audit work carried out in the year;
  - achievement against plan;
  - an opinion on the adequacy and effectiveness of the system of internal control; and
  - planned audit work for the next year.
- 8.4. This report contains the Head of Internal Audit's annual assurance statement and is a source of evidence for the PATROL AJC's Annual Governance Statement.
- 8.5. A timetable of reports is shown at Appendix 6.

## **9. Resources**

- 9.1. As part of the process of introducing this strategy Internal Audit has discussed with the Head of Service the need for an increased resource from 2010/11 onwards. We consider that this is needed to reflect more fully the work necessary to be undertaken over and above the agreed allocation in previous years, to provide a level of assurance which is in line with External Audit expectations.

- 9.2. Internal Audit currently charge the PATROL AJC to provide an internal audit service. Based on the assessment described above, the 2010/11 audit plan has been compiled using 16 days of audit resources as discussed with the Head of Service. Audit resource is expended at all levels within the Section, including contributions from the Head of Internal Audit, Principal Audit Manager, Audit Manager, Lead Auditor and Auditor.

**Appendix 1 – Overview of PATROL AJC Assurance Framework**



## Appendix 2

### Internal Audit Terms of Reference

#### Introduction

The guidance accompanying the Accounts and Audit Regulations states that proper internal audit practices for local government in the UK are embodied within the “Code of Practice for Internal Audit in Local Government in the United Kingdom” issued by the Chartered Institute for Public Finance and Accountancy (CIPFA). The Code of Practice states that: “the purpose, authority and responsibility of Internal Audit should be formally defined by the organisation in terms of reference”.

This document has been prepared to act as the approved terms of reference for internal audit at the Parking and Traffic Regulations Outside London Adjudication Joint Committee (PATROL AJC). Its contents follow the template set out in the Code of Practice. The powers of Internal Audit are set out in the PATROL AJC’s Financial Regulations.

#### Definition of Internal Audit

The CIPFA Code of Practice defines internal audit as follows:

Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

An explanatory note to this definition adds:

Whilst Internal Audit “primarily” provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related work.

## Responsibilities and Objectives of Internal Audit

### Core audit role

Our primary responsibility is to provide assurance to the Joint Committee Members and to management that there are arrangements in place for the proper administration of the PATROL AJC's financial affairs and generally that systems of internal control are adequate and effective. We also make recommendations designed to improve such systems and arrangements. Two main methodologies are used to achieve this assurance. One is a risk-based programme of assurance audit work mainly employing systems audit techniques. This programme is set out in annual audit plans under-pinning a three-year cyclical plan, which is agreed with Joint Committee and Head of Service for the PATROL AJC. This work is designed to deliver an opinion on the existing control environment. It extends beyond financial matters to the assessment of controls in place that are designed to minimise the risks of the PATROL AJC failing to achieve its approved strategic priorities and annual business objectives.

The second is active involvement in new developments and issues arising in the year so as to ensure that control issues are addressed before implementation of solutions. This work is distinct from pure consultancy work, discussed below, in that the focus remains on obtaining assurance about the PATROL AJC's control arrangements. As far as practical this work is planned in advance, but a greater degree of flexibility is needed to ensure that resources are deployed most effectively.

Overall, the three-year and supporting one-year audit plans reflect the most significant issues facing the PATROL AJC based on a risk assessment of its services. The plan is designed to produce risk based review and evaluation of the internal control environment to enable the Head of Internal Audit to form an opinion on the overall robustness of the PATROL AJC's control arrangements.

It should be noted that best practice requires that Internal Audit take account in our planning of the PATROL AJC's own assessment of risk.

### Fraud and Corruption

As stated in the CIPFA Code, managing the risk of fraud and corruption is the responsibility of management (for example through maintaining internal controls to prevent and detect fraud). Internal Audit does not have responsibility for the prevention or detection of fraud. However, fraud issues are an area where Internal Audit is well placed to offer a lead. To enable this we have a focus on anti-fraud and corruption and responsibility for raising fraud awareness across the PATROL AJC and to lead on any fraud investigations where Internal Audit are conducting the work.

Responsibility for the investigation of fraud rests with management, but Internal Audit has expertise in such investigations and can assist management with this. In addition, suspicions of fraud or corruption may be reported directly to the Head of Internal Audit under the PATROL AJC's Whistleblowing and Anti-fraud and Corruption arrangements. In these cases investigations by Internal Audit will usually be in conjunction with line management but exactly who is informed will depend on the nature of the allegations. The decision as to whether any particular matter should be referred to the Police rests with the Head of Internal Audit in consultation with relevant senior PATROL AJC managers.

### **Financial Consultancy**

Internal Audit can also add value by providing, to the extent that resources permit, an independent and objective consultancy service designed to help the PATROL AJC improve its internal control environment. This can include reviews of specific problem areas, advice and support on new developments (to the extent these are not included in core audit work), advice to committees and assistance in the preparation of strategic policy documents. With all consultancy work it is necessary to maintain objectivity and independence therefore decision making must remain with line management charged with the delivery of services.

### **External audit**

Internal Audit works with the PATROL AJC's external auditor, currently Grant Thornton, in order to maximise the value obtained from the total audit resource.

### **Internal Audit reporting lines**

For day to day purposes the Head of Internal Audit reports to the PATROL AJC's Head of Service in order to assist in meeting their responsibilities for the administration of financial affairs under Section 73 of the Local Government Act 1985. He also reports regularly to the Joint Committee. In addition, the Head of Internal Audit has the authority to report on any matter to any officer or Member that he/she believes is necessary to fulfil his responsibilities.

### **Independence and accountability of internal audit**

#### **Independence and right of access**

The Joint Committee has approved financial regulations which make reference to Internal Audit as follows:

- The Head of Service shall on an annual basis, so far as he/she considers necessary:
  - Agree and audit plan with the internal auditors (currently the Lead Authority's Internal Audit Section).
  - Arrange for the internal audit of accounts and internal assurance

framework of the Joint Committee and its officers in accordance with an agreed audit plan.

- The Head of Service will ensure that Internal Auditors have right of access to such records and explanations as they require to complete work undertaken.

With regard to the adequacy of resource the Head of Internal Audit will advise the Head of Service for the PATROL AJC whether additional resources are required to meet his duties in order that this can be reported to the next available Joint Committee meeting.

Internal Audit independence is primarily a state of mind. It is essential that internal auditors are prepared to challenge, on the basis of objective evidence, any decision, policy or practice of the PATROL AJC that they consider inappropriate or sub-optimal no matter who was involved in taking that decision. We seek through our training and development procedures to encourage the development of this mind set in our staff. Equally, it is essential that the PATROL AJC's officers and Members recognise that it is the role and responsibility of Internal Audit to do this and accept audit comments and advice in this spirit. Members and officers are not obliged to accept Internal Audit advice but should give a reasoned response as to why they take a different view.

### Accountability

Internal Audit is primarily accountable to the PATROL AJC's Treasurer. Our activities are also subject to review by the Joint Committee and its Executive Sub Committee, and in a different sense, by the external auditor. Internal Audit sets itself a number of performance indicators, which it regularly monitors and challenges for their ongoing usefulness.

### Audit opinion

The Head of Internal Audit has both the right and duty to deliver an audit opinion on the control environment of the PATROL AJC and on any other matter he/she thinks appropriate to deliver his responsibilities. The provisions described in the rest of this document enable him/her to be effective in this role.

### Appendix 3 – Three Year Audit Plan for PATROL AJC

<b>INTERNAL CONTROL</b>	<b>Days</b>	<b>Risk</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>Alternative Sources of Assurance</b>
Financial Reporting / IFRS	0	M				External audit of accounts
Anti-Fraud	0	M				
Allowances and Expenses	0	M				
Business Planning	5	M		5		
Core Financial Systems (which include General Ledger, Creditors, Procurement, Income, Treasury Management, Payroll, Budget Setting and Budget Monitoring)	16	M	8		8	
Compliance with Legislation	5	L		5		
Business Continuity	5	L		5		

#### **GOVERNANCE**

Corporate Governance (Constitution / Code of Conduct)	8	M			8	
Member Development	0	M				
Performance Management	2	L		2		Follow Up on External Audit work
Complaints	0	L				

#### **RISK**

Risk Management Framework	2	H	2			Follow Up on External Audit work
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#### **RISK BASED AUDIT**

Recruitment, Selection and Training	0	L				
Information Systems	5	M			5	

	Days	Risk	2010/11	2011/12	2012/13	Alternative Sources of Assurance
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**OTHER WORK**

Consultancy and Advice	2		2			Review of Financial Regulations 2010/11
Anti-Fraud – Investigations	0		0	0	0	Reactive work
Annual Governance Statement	3		1	1	1	Review of documentation
Follow-Up	2.5		0.5	1	1	
Annual Planning	3.5		1.5	1	1	Including the establishment of a three year strategy.
Periodic Reporting	3		1	1	1	

<b>Totals</b>	<b>62</b>
Fees (based on blended daily rate of £325)	

<b>16</b>	<b>21</b>	<b>25</b>
<b>£5,200</b>	<b>£6,825</b>	<b>£8,125</b>

## Appendix 4 – Annual Plan 2010/11 for PATROL AJC

INTERNAL CONTROL	Days	Risk	Details
Core Financial Systems (specifically Budget Setting, Budget Monitoring and Payroll)	8	M	<p>To provide assurance over compliance with procedures for the control of budgets and the accuracy and completeness of the payroll process. We will look to ensure:</p> <ul style="list-style-type: none"> <li>• The budget covers all areas of income and expenditure and is based on realistic assumptions.</li> <li>• The budget is fully and promptly loaded into the Quickbooks ledger.</li> <li>• Budget monitoring procedures are in place and communicated to budget holders.</li> <li>• Virement limits are set and appropriate authorisation is in place.</li> <li>• Monitoring and reporting of the budget position occurs throughout the year.</li> <li>• Authorisation of accurate amendments to starters, leavers and amendments to standing data.</li> <li>• Regular reconciliation of the payroll system to the financial ledger.</li> <li>• Review and authorisation of payroll and payment files prior to release.</li> </ul>

### RISK

Risk Management Framework	2	H	Follow Up on External Audit work
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### OTHER WORK

Consultancy and Advice	2		Review of Draft Financial Regulations 2010/11
Annual Governance Statement	1		Review of documentation collated in preparation for AGS.
Follow-Up	0.5		Review of management action taken in response to internal audit work completed during 2009/10 entitled Financial Management System.
Annual Planning	1.5		This includes work undertaken in respect of both the three year strategy and annual plan for 2010/11.
Periodic Reporting	1		To the Head of Service and Joint Committee in line with Appendix 4.
<b>Totals</b>	<b>16</b>		
Fees (based on blended daily rate of £325)	<b>£5,200</b>		

## Appendix 5 – Three Year Audit Plan for Bus Lanes Joint Committee

INTERNAL CONTROL	Days	Risk	2010/11	2011/12	2012/13	Alternative Sources of Assurance
Annual Return	24		8	8	8	Completion and sign off of Section 4 of Annual Return

### RISK BASED AUDIT

Bus Lane Recharge Mechanism	5	M	5			
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<b>Totals</b>	<b>29</b>		<b>13</b>	<b>8</b>	<b>8</b>	
Fees (based on blended daily rate of £325)			<b>£4,225</b>	<b>£2,600</b>	<b>£2,600</b>	

## Appendix 6 - Timetable of Reports

SUBMISSION DATE	REPORT: NAME AND PURPOSE	RESPONSIBLE OFFICER	RESPONSIBLE COMMITTEE	COMMENTS
May	<p>Review of the Effectiveness of the System of Internal Audit</p> <p>Satisfies Accounts and Audit Regulations (2003) (amended) requirement to review and report on achievement against a range of criteria including scope, independence, planning, competence, relationships and adding value.</p>	Head of Internal Audit	Joint Committee / Executive Sub Committee	As a matter of course the Advisory Board consider papers being issued to the Joint Committee.
June	<p>Annual Report/Assurance Statement</p> <p>Explains the work of Internal Audit in examining, evaluating and reporting on the Lead Authority's internal controls and is the Head of Internal Audit's opinion on their overall adequacy.</p>	Head of Internal Audit	Joint Committee / Executive Sub Committee	As a matter of course the Advisory Board consider papers being issued to the Joint Committee.
June	<p>Annual Plan/Terms of Reference</p> <p>Describes the nature and scope of audit activity for the year ahead based on the Internal Audit Strategy and risk assessment. Includes Internal Audit Terms of Reference for approval.</p>	Head of Internal Audit	Joint Committee / Executive Sub Committee	As a matter of course the Advisory Board consider papers being issued to the Joint Committee.
January September	<p>Progress Reports</p> <p>Delivery against audit plan including any concerns over key controls and progress with the implementation of outstanding Internal Audit recommendations.</p>	Head of Internal Audit	Joint Committee / Executive Sub Committee	As a matter of course the Advisory Board consider papers being issued to the Joint Committee.