

Internal Audit

Internal Audit and Corporate Fraud: strategy and plan 2015-16

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**Brighton & Hove
City Council**

1. Introduction	2
2. Overall aims of Internal Audit and the Corporate Fraud Team	2
3. Key areas of work for Internal Audit	2
4. Key areas of work for the Corporate Fraud Team	3
5. Internal Audit and Corporate Fraud Standards	4
6. Allocation of resources	4
7. Performance Management	5
	Appendices
A Indicative Internal Audit Plan (April 2015 to June 2015)	6
B Internal Audit Charter	7
C Service Performance Targets	11

1. Introduction

This plan set out the strategy and planned work for Internal Audit and the Corporate Fraud Team for 2015/16.

2015/16 is a year of transformation as the Council seeks to address substantial financial challenges and modernise the way services are delivered. The Council is also reviewing its arrangements for corporate governance and carrying out a formal organisational learning review.

In response to these changes the Internal Audit and the Corporate Fraud Teams will need to work flexibly to ensure that their resources are directed to where they are most needed. As a result, rather than setting a detailed programme of work covering the whole year, this document sets out:

- the overall aims of Internal Audit and the Corporate Fraud Team
- the key areas of work for the year
- a detailed work programme for the first quarter of 2015/16 only.

Progress reports and updated detailed work programmes will be presented to each Audit and Standards Committee for approval.

2. Overall aims of Internal Audit and the Corporate Fraud Team

Each local authority is required to maintain an adequate and effective system of internal audit. Internal Audit seeks to do this by providing:

- **assurance** (for example on the internal control environment to the Council's Chief Financial Officer and the Audit and Standards Committee)
- **support** (for example, by providing advice on addressing risks to service managers)

The Corporate Fraud Team aims to **minimise the impact of fraud and corruption on the Council and its citizens.**

Both Internal Audit and the Corporate Fraud Team play a key role in promoting a strong control environment including a strong anti-fraud and corruption culture.

3. Key areas of work for Internal Audit

Providing assurance on the Council's core systems and controls:

We will review the Council's core systems and controls and assess whether they remain sufficiently robust. This work includes reviews of:

- core financial systems
- IT controls.

Providing assurance on controls in service areas

We will review operational and financial controls in service areas. The focus of this work will be to assess whether the controls address service risks. This work includes:

- schools audits
- specific service reviews.

Supporting the modernisation agenda

We will review key areas that support the Council's modernisation agenda. This includes:

- the overall governance framework (working closely with the Head of Legal and Democratic Services)
- the wider change agenda
- procurement (including contract management).

Reviewing implementation of audit recommendations

We will work with ELT and other senior managers to monitor the implementation of audit recommendations.

4. Key areas of work for the Corporate Fraud Team

Supporting the Council's promotion of a strong anti-fraud and corruption culture

We will support the Council to promote understanding of the impact of fraud and corruption on the Council and its citizens, its zero-tolerance of fraud and corruption and how to report suspicions. This will include e-learning and face to face training as part of a wider communications strategy.

Preventing and detecting fraud and corruption

We will support the prevention and detection of fraud and corruption by:

- working closely with the Head of Legal and Democratic Services to update the Council's anti-fraud and corruption policies and procedures
- carrying out and reviewing the results of data-matching exercises (including the National Fraud Initiative).

Investigating and pursuing fraud and corruption

We will investigate and pursue indications of fraud and corruption focusing on those areas that have the most significant impact on the Council and the citizens of Brighton and Hove. Based on national data, these areas are likely to comprise fraud and corruption relating to:

- procurement
- housing tenancy
- council tax
- Blue Badges
- grants
- pensions.

5. Internal Audit and the Corporate Fraud Team standards

Internal Audit complies with the Public Sector Internal Audit Standards (2013). These are reflected in our Audit Charter which is approved by the Audit and Standards Committee (see Appendix B). The standard and quality of internal audit is principally scrutinised through:

- an annual review of the effectiveness of internal audit required by the Accounts & Audit Regulations 2011
- an independent external review of the service every 5 years
- external audit based on their review of our work in specific areas
- customer feedback requested for all completed pieces of work.

The Corporate Fraud team is required to comply with a range of legislative requirements including the Police and Criminal Evidence Act 1984 and the Criminal Procedures and Investigations Act 1996.

6. Allocation of resources

Internal Audit has 1400 days available for direct audit work from 8.9 full-time equivalent staff and our external partner (currently Mazars Public Sector Audit Limited). Internal staff are a mixture of CCAB qualified accountants, members of the Chartered Institute of Internal Auditors and those with the AAT qualifications. Mazars mainly provides specialist IT support. We expect to allocate Internal Audit resources as set out in Table 1. The detailed programme for the first quarter of 2015/16 is set out in Appendix A.

Table 1 - Internal Audit Resources

Audit activity	Days
Financial Systems	300
IT Audit	100
Schools	90
Service	410
Governance	100
Wider Change Agenda	80
Procurement	140
Implementation	50
Other Incl. Contingencies	130
	1400

The Corporate Fraud Team has 500 days available for direct work on corporate fraud from the Corporate Fraud Manager, two full-time accredited fraud officers and a support officer. We expect to allocate our corporate fraud resources as set out in Table 2.

Table 2 - Corporate Fraud Resources

Corporate fraud team activity	Days
Supporting anti-fraud culture	60
Updating policies	30
Data matching (inc NFI)	80
Investigating and pursuing fraud	330
	500

7. Performance Management

Performance measures and targets are shown at Appendix C for six aspects of our service:

- cost and quality of input
- productivity and process efficiency
- quality of output
- compliance with professional standards
- outcomes and degree of influence
- staff qualifications and training.

Appendix A**Indicative Internal Audit programme (April 2015 to June 2015)**

Audit Name	Category	Days
Write-offs	Financial systems	15
Pensions Administration	Financial systems	12
Bank Reconciliations	Financial systems	7
Information Governance (Service Level Arrangements)	IT Audit	12
School Audits	Schools	25
Street Cleaning	Service Review	15
Housing Related Support	Service Review	15
Highways Maintenance	Service Review	18
Deprivation of Liberty	Service Review	13
Casual Staff	Service Review	15
Insurance (Fraudulent Claims)	Service Review	8
Data Protection	Governance	10
Improvements to Corporate Governance	Governance	50
Major Capital Projects	Wider Change Agenda	18
Modernisation Agenda	Wider Change Agenda	30
Income Generation (EDH)	Wider Change Agenda	10
Gas Servicing (Housing)	Procurement	15
Repairs and Maintenance (Housing)	Procurement	20
Lift Maintenance	Procurement	12
Implementation Reviews	Implementation	30
Total days		350

Progress reports and updated detailed work programmes will be presented to each Audit and Standards Committee for approval.

Appendix B

Internal Audit Charter

Introduction

This Charter defines for the Council, the purpose, authority and responsibility of the Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be approved annually by the Audit & Standards Committee, after consultation with the Executive Leadership Team (ELT).

Internal Audit Purpose

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Internal Audit supports the whole Council to deliver economic, efficient and effective services and achieve the Council's vision, priorities and values.

In a local authority internal audit provides independent and objective assurance to the organisation, its Members, the ELT and in particular to the Chief Financial Officer (the Executive Director, Finance & Resources) to help discharge her responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.

Authority

The Head of Internal Audit is the Council's Chief Audit Executive as defined in the Public Sector Internal Audit Standards 2013

The Head of Internal Audit is line managed by the Council's Chief Financial Officer but has unrestricted access to the Chief Executive, all members of the ELT, Corporate Management Team and Chair of the Audit & Standards Committee.

Internal Audit has unrestricted access to all Council and partner records and information, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the External Auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

Internal Audit Responsibility

The Council's Head of Internal Audit is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit & Standards Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide responsive, challenging and informative advice and support to management on risk management, controls and governance to management.
- To provide clear and concise internal audit reports to support management in implementing agreed actions to improve services and risk management, control and governance processes.
- To investigate all cases of suspected financial irregularity, fraud or corruption in accordance with agreed procedures.
- To promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal Audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Local Authority Trading Companies. Internal Audit may also provide assurance to the Council on third party operations (such as delivered by contractors and partners) where this has been provided for as part of the contract.

Internal Audit Reporting

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Annual Internal Audit Plan that includes the Audit Charter are reported annually to the ELT and the Audit & Standards Committee. These are approved by the Audit & Standards Committee.
- The Annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of the ELT and Corporate Management Team.
- The Internal Audit budget is reported to the Policy & Resources Committee and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the Audit & Standards Committee. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Annual Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the ELT and Audit & Standards Committee on a regular basis throughout the year
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit & Standards Committee.
- Results from the quality assurance and improvement programme will be reported to both ELT and Audit & Standards Committee.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to the ELT and Audit & Standards Committee and will be included in the Head of Internal Audit's Annual Internal Audit Report and Opinion. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

Internal Audit Independence

The independence of the Head of Internal Audit is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the Audit & Standards Committee contribute to, and/or review the appraisal of the Head of Internal Audit.

All Internal Audit staff are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit & Standards Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

Due Professional Care

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- Public Sector Internal Audit Standards 2013
- All Council Policies and Procedures
- Other relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards 2013, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Internal Audit is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

Appendix C**Service Performance Targets 2015/16**

Aspect of Service	Performance Indicators	Target
Cost and Quality of Input	<ul style="list-style-type: none"> • Service costs 	<ul style="list-style-type: none"> • Within budget
Productivity and Process Efficiency	<ul style="list-style-type: none"> • Achievement of planned audits by 30 April 2016 • Issue of draft report after completion of fieldwork • Issue of final report after agreement with client of draft • Reviews delivered within budgeted time 	<ul style="list-style-type: none"> • 95% • Within 10 Days • Within 10 Days • 95%
Quality of Output	<ul style="list-style-type: none"> • Satisfaction levels • External audit reliance on work of internal audit 	<ul style="list-style-type: none"> • 90% satisfied • Reliance placed
Compliance with Professional Standards	<ul style="list-style-type: none"> • Public Sector Internal Audit Standards • Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	<ul style="list-style-type: none"> • 100% compliant • 100% compliant
Outcomes and degree of influence	<ul style="list-style-type: none"> • Implementation of agreed management action to recommendations made 	<ul style="list-style-type: none"> • 95% for high priority, 85% for medium priority
Staff Qualifications and Training	<ul style="list-style-type: none"> • Professionally Qualified/Accredited and undertaking CPD • Annual Training & Development Received (Minimum) 	<ul style="list-style-type: none"> • 80% • 5 Days