

**Internal Audit**

# **Internal Audit and Corporate Fraud: draft strategy and plan 2016-17**

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**Brighton & Hove  
City Council**

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## 1. Introduction and background

This document sets out the strategy and planned work for Internal Audit and Corporate Fraud for 2016/17.

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)
- **recommending** improvements in controls
- **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.**

The council is facing significant challenges to deliver financial savings and to modernise the way services are delivered, including greater partnership working. During this period of change Internal Audit and Corporate Fraud play a key role in promoting a strong control environment so that the council, the council's partners and the citizens of Brighton & Hove can have confidence in the council's arrangements.

Internal Audit and Corporate Fraud are not immune from the council's financial challenges and we will need to deliver a significant reduction in our own budget over the next four years. We plan to meet our budgetary challenges and continue to deliver a high quality internal audit and corporate fraud service by:

- ensuring that audit and corporate work is focused on the council's key risks. This is based on our cumulative knowledge and experience at Brighton & Hove, national comparative data and is informed by our review of the risk register, our independent assessment of audit risk and consultation with officers
- develop our use of audit and counter fraud techniques. This includes wider use of data matching and data analysis to identify and investigate unusual transactions. We also plan to carry out more high level reviews to assess how senior management gains assurance over strategic risks
- working with colleagues in East Sussex County Council and Surrey County Council to join the Orbis partnership. This will help us to achieve economies of scale, to reduce the impact of budget cuts on our audit plan, and will also provide the service with greater resilience.

## 2. Key areas of work for 2016/17

Our key areas of work for 2016/17 are set out below

Area of activity	Plan
Governance arrangements	<ul style="list-style-type: none"> <li>Review of key corporate governance processes and strategic risks</li> <li>Raising awareness and promotion of a strong control environment</li> <li>Investigation of whistleblowing and other referrals</li> <li>Review of declarations of interest</li> </ul>
Procurement and contract management	<ul style="list-style-type: none"> <li>Reviews of specific contracts</li> <li>Review of specific aspects of the councils approved procurement and contract management framework</li> </ul>
Financial systems	<ul style="list-style-type: none"> <li>Review of core financial systems</li> <li>Data matching and analysis to identify and investigate unusual transactions</li> <li>Review and sign off of grant claims</li> </ul>
Projects	<ul style="list-style-type: none"> <li>Reviews of specific projects (strategic, capital and service based)</li> </ul>
ICT	<ul style="list-style-type: none"> <li>Reviews of information governance arrangements</li> <li>Reviews of specific systems</li> </ul>
Housing	<ul style="list-style-type: none"> <li>Reviews of housing capital expenditure</li> <li>Review of specific housing systems and contracts</li> <li>Data matching and analysis to identify and investigate unusual transactions for right to buy and housing tenancy</li> </ul>
Service reviews	<ul style="list-style-type: none"> <li>Review of key risks and controls within individual services</li> <li>Data matching and analysis to identify and investigate unusual transactions</li> </ul>
Implementation of audit recommendations	<ul style="list-style-type: none"> <li>Follow up of limited assurance audits</li> <li>Monitoring of implementation of audit recommendations, corporate reporting and escalation</li> </ul>

Internal Audit has 1115 days available for direct audit work from 6.4 full-time equivalent staff and our external partner (currently TIAA). Internal staff are a mixture of CCAB qualified accountants, members of the Chartered Institute of Internal Auditors and those with the AAT qualifications. TIAA mainly provides specialist IT support. Our detailed audit plan is set out in appendix A.

The Corporate Fraud Team has 475 days available for direct work on corporate fraud from 3.8 full time equivalent staff. Our detailed plan is set out in appendix B.

In addition we have allocated 430 days (including the head of internal audit and other management time) allocated to the following activities.

Activity	Days
Planning and general management	70
Audit & Standards Committee support	20
Corporate support and advice to services and projects	50
Service development (including Orbis)	110
Support to the DwP's single fraud investigation service	140
Audit of South Downs National Park Authority	40
<b>Total</b>	<b>430</b>

## **4. Internal Audit and 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 the following:

- an annual review of the effectiveness of internal audit required by the Accounts & Audit Regulations 2015
- 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.

## **5. Performance Management**

Our current performance measures and targets are shown at Appendix C. These cover the following 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
- our staff.

We are currently reviewing these measures with our Orbis colleagues to develop a consistent set of performance measures for 2016/17. We will report any proposed changes to the Audit & Standards Committee.

**Appendix A****Draft Internal Audit programme**

<b>Audit Name</b>	<b>Plan Category</b>	<b>Days</b>
Declarations of Interests, Gifts & Hospitality	Governance arrangements	12
Risk Management	Governance arrangements	15
Strategic risk - Developing an investment strategy to refurbish and develop the city's major asset of the seafront	Governance arrangements	15
Strategic risk - Keeping vulnerable adults safe from harm and abuse	Governance arrangements	15
Contract Letting & Renewal	Procurement and contract management	15
Contract Waivers	Procurement and contract management	10
Highways Maintenance	Procurement and contract management	15
Strategic construction Contract	Procurement and contract management	15
Bank Reconciliations	Financial systems	5
Budget Management	Financial systems	20
Business Rates	Financial systems	15
Business Rates - Fraud Detection controls	Financial systems	15
Council Tax	Financial systems	15
Creditors	Financial systems	20
Debtors	Financial systems	18
Financial Appraisals/ Vetting (follow-up)	Financial systems	5
Housing and Council Tax Benefits	Financial systems	20
Housing Rents	Financial systems	18
Main Accounting System	Financial systems	15
Payroll	Financial systems	20
Pensions Administration	Financial systems	12
School Funding Arrangements	Financial systems	15
Troubled Families - Grant Claim	Financial systems	4
VAT	Financial systems	15
Major Capital Projects	Projects	16
Modernising the Council	Projects	15
Orbis Implementation	Projects	12
Building and System Access Controls (Follow-up)	ICT	5
Cyber Security	ICT	10
Disposals	ICT	12
ICON application	ICT	10
IT Incident Management	ICT	10
IT Service Management	ICT	8
Mobile Device Management	ICT	10
Parking Service Systems	ICT	8
Housing - New Builds	Housing	15
Housing Allocations	Housing	20

Housing Repairs - Capital Works	Housing	20
Housing Repairs - Capital Programme	Housing	15
Housing Repairs - Responsive	Housing	30
Housing Temporary Accommodation	Housing	20
LDV (follow-up)	Housing	5
Right to Buy	Housing	20
Adolescent Services	Service Review	15
Agency Staff (Follow-up)	Service Review	5
Better Care Fund	Service Review	12
Business Continuity	Service Review	15
City Parks	Service Review	5
Commercial Property Management	Service Review	12
Deprivation of Liberty (Follow-up)	Service Review	12
Direct Payments	Service Review	12
Grants Payable and Trust Funds	Service Review	12
Home to School Transport	Service Review	10
Learning Disabilities	Service Review	20
On-Street and Off-Street Car Parking	Service Review	20
PCNs	Service Review	15
Property Disposal	Service Review	8
Public Health	Service Review	20
Residents Parking Permits	Service Review	12
Schools Audits	Service Review	60
Section 17 Payments	Service Review	15
Contingency for Unplanned Work (including c/f from 2015/16)	Contingency	200
Recommendation Tracking	Implementation	30
		<b>1115</b>

As far as possible we will seek to include any additional work required for new and emerging risks from our contingency budget. If we need to make changes to the detailed work programme we will take a revised work programme to the Committee for approval.

## Appendix B

### Draft corporate fraud team programme

Fraud area	Days
Review and update of fraud policies	10
Fraud awareness and publicity	40
Data matching	80
Investigating and pursuing fraud focused on high priority areas: <ul style="list-style-type: none"> <li>• Procurement</li> <li>• Housing Tenancy and Right to Buy</li> <li>• Car parking income</li> <li>• Council Tax</li> <li>• Business rates</li> <li>• Direct Payments</li> <li>• No recourse to public funds</li> <li>• Abuse of position</li> <li>• Cyber fraud</li> </ul>	345
<b>Total days</b>	<b>475</b>

A significant proportion of corporate fraud work depends on issues arising during the course of the year. This means that this draft programme is subject to change. We will keep the Audit & Standards Committee updated as to progress during the course of the year.



## **Appendix C**

### **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 his/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 (2015) 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 D****Service Performance Targets 2016/17**

<b>Aspect of Service</b>	<b>Performance Indicators</b>	<b>Target</b>
<b>Cost and Quality of Input</b>	<ul style="list-style-type: none"> <li>• Service costs</li> </ul>	<ul style="list-style-type: none"> <li>• Within budget</li> </ul>
<b>Productivity and Process Efficiency*</b>	<ul style="list-style-type: none"> <li>• Achievement of planned audits by 30 April 2015</li> <li>• Issue of draft report after completion of fieldwork</li> <li>• Issue of final report after agreement with client of draft</li> </ul>	<ul style="list-style-type: none"> <li>• 95%</li> <li>• Within 10 Days</li> <li>• Within 10 Days</li> </ul>
<b>Quality of Output</b>	<ul style="list-style-type: none"> <li>• Satisfaction levels</li> <li>• External audit reliance on work of internal audit</li> </ul>	<ul style="list-style-type: none"> <li>• 90% satisfied</li> <li>• Reliance placed</li> </ul>
<b>Compliance with Professional Standards</b>	<ul style="list-style-type: none"> <li>• Public Sector Internal Audit Standards</li> <li>• Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act</li> </ul>	<ul style="list-style-type: none"> <li>• 100% compliant</li> <li>• 100% compliant</li> </ul>
<b>Outcomes and degree of influence</b>	<ul style="list-style-type: none"> <li>• Implementation of agreed management action to recommendations made</li> </ul>	<ul style="list-style-type: none"> <li>• 95% for high priority, 85% for medium priority</li> </ul>
<b>Our Staff</b>	<ul style="list-style-type: none"> <li>• Professionally Qualified/Accredited and undertaking CPD</li> <li>• Annual Training &amp; Development Received (Minimum)</li> </ul>	<ul style="list-style-type: none"> <li>• 80%</li> <li>• 5 Days</li> </ul>

Note: We are currently reviewing these measures with our Orbis colleagues to develop a consistent set of performance measures for 2016/17. We will report any proposed changes to the Audit & Standards Committee.

