

Internal Audit

Annual plan

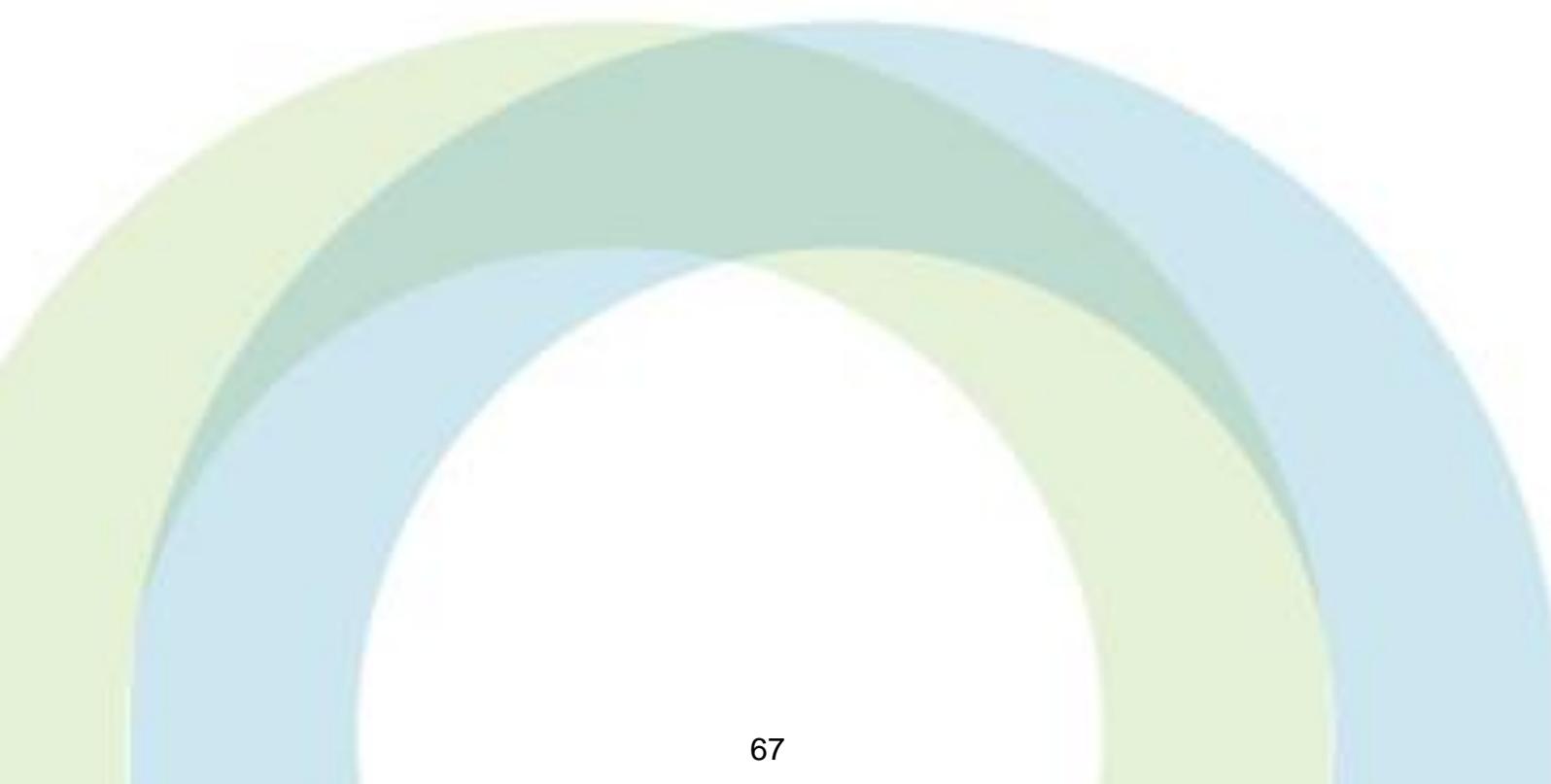
2017/18

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Prepared for Brighton & Hove City Council

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1. Introduction

1.1 The Accounts and Audit Regulations 2015 require every local authority to maintain an effective internal audit. This paper sets out:

- the internal audit planned work for 2017/18
- the Internal Audit Charter which describes for the Council the purpose, authority and responsibilities of the Internal Audit function
- the Internal Audit Quality Assurance Improvement Programme which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:
 - performs its work in accordance with its charter
 - operates in an effective and efficient manner
 - is adding value and continually improving the service that it provides.

2. Planned audit and counter fraud work

2.1 We have 1038 days available for direct audit work. This compares to 1085 days for 2016/17. Most of this will be provided by staff employed by Brighton & Hove City Council and will also include staff from:

- our Orbis partners, East Sussex County Council and Surrey County Council
- TIAA, our private sector partners

2.2 Our planned audit activity is informed by our assessment of risk and in consultation with senior officers and members of the Audit & Standards Committee. The audit plan is set out in appendix 1 and summarised below.

| Area | Expected days | Focus of audit work |
|-------------------------------------|---------------|--|
| Strategic risks | 105 | Review of strategic risks and common themes arising from the Corporate Risk Assurance Framework |
| Key financial audits | 174 | Core financial systems including data matching and analysis to identify and investigate unusual transactions |
| Governance | 50 | Specific governance audits such as: officer conduct and public consultations |
| Grant claims | 32 | Review and sign off of applications for funding |
| ICT | 70 | Reviews of information governance arrangements and ICT specific systems |
| Procurement and contract management | 82 | Reviews of: corporate arrangements and specific contracts. |
| Service reviews | 245 | Review of key risks and controls within individual services |
| Schools | 80 | Review of specific schools and Identification and sharing of advice and alerts |
| Contingency | 200 | To provide flexibility for new and emerging issues during the course of the year |
| Total | 1038 | |

- 2.3 We have 500 days available to support our work on counter-fraud (475 in 2016/17). Most of this will be delivered by Brighton & Hove's specialist fraud team led by the council's corporate fraud manager and will focus on:
- fraud awareness throughout the organisation and beyond
 - proactively identifying frauds through data matching and other initiatives
 - preventing, detecting and pursuing fraud with a particular focus on housing tenancy and right to buy.
- 2.4 In addition to the specific audit and corporate fraud activities above the service has 254 days (280 days in 2016/17) for support to the Audit & Standards Committee, liaison with senior management, advice and information, recommendation tracking and management of the internal audit and corporate fraud teams.
- 2.5 Further information and a breakdown of audit and corporate fraud activities is provided in Appendix 1.
- 3.1 Public Sector Internal Audit Standards (PSIAS) require an Internal Audit Charter to be reviewed periodically and presented to "senior management" and "the board" for approval. For Brighton & Hove "senior management" is the Executive Leadership Team (ELT) and the board is the Audit & Standards Committee. The Charter sets out for the Council the purpose, authority and responsibilities of the Internal Audit function and is attached at appendix 2.

The Charter also refers to the requirement for Internal Audit to put in place a Quality Assurance Improvement Programme (QAIP). The QAIP is attached at appendix 3. It is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- performs its work in accordance with its charter
 - operates in an effective and efficient manner
 - is adding value and continually improving the service that it provides.
- 4.1 The QAIP is attached at appendix 3. It includes:
- performance targets to be agreed with and reported to senior management and the board
 - the requirement for five yearly external assessments. This is now due and is planned for 2017/18.

Appendix 1 – Detailed Internal Audit and Corporate Fraud Plan

| Internal Audit Areas | Planned audits for 2017/18 | Planned days | |
|----------------------|---|--------------|---------|
| | | 2016/17 | 2017/18 |
| Strategic Risk | School Places Planning Health and Social Care Integration Organisational Capacity (including demand management) Financial Pressures Welfare reform | 30 | 105 |
| Key Financial | Business Rates Care Payments Cash Collection & Banking Council Tax Creditors Debtors Housing and Council Tax Benefits Main Accounting System Payroll Treasury Management | 228 | 174 |
| Governance | Conduct of Officers Public Consultations Employee Vetting and Recruitment | 27 | 50 |
| Grant | Disabled Facilities Grant EU Interreg Grant - SCAPE EU Interreg Grant- PACE EU Interreg Grant- SHINE Transport Capital Grants Troubled Families - Grant Claim | 4 | 32 |
| IT Audit | CareFirst Application IG Toolkit Firewall Management Mobile & Portable Devices Active Directory - User Management Digital First | 73 | 70 |
| Procurement | Gas Servicing Contract Housing Repairs Procurement Cards Strategic construction Contract (New) Lift Maintenance Contracts (Housing) Contract Waivers (Follow-up) | 110 | 82 |
| Schools | Schools Audits | 60 | 80 |

| | | | |
|-----------------------------|--|-------------|-------------|
| Service Review | Direct Payments and Personal Budgets Early Help Hub Housing Allocations Housing Temporary Accommodation On-Street and Off-Street Car Parking Transport Management Highways Asset Valuation Major Capital Projects (Brighton Centre/ Black Rock) Major Capital Projects (Housing development initiatives) Brighton and Hove Inclusion Support Service Youth Employability Service Learning Disabilities Service (Adults) Residential Care for the Elderly City Clean Expenditure (external contracts and commercial activities) Business continuity (follow up) | 353 | 245 |
| Total planned audits | | 885 | 838 |
| Contingency | Contingency for Unplanned Work and Emerging Risks | 200 | 200 |
| Total | | 1085 | 1038 |

| Counter Fraud work | Focus | Planned days | |
|---|---|--------------|------------|
| | | 2016/17* | 2017/18 |
| Fraud awareness and publicity | Continuing to raise awareness of fraud issues and how to report suspicions (both internally and externally) | 50 | 40 |
| Data matching | Co-ordinating review of National Fraud Initiative matches Developing other data matching reports | 80 | 60 |
| Housing tenancy and Right to Buy | Investigating suspected cases of housing tenancy fraud Reviewing right to buy applications Other initiatives, such as repeating the 2016/17 tenancy amnesty | 270 | 270 |
| Investigating and pursuing fraud in other high priority areas | Includes but not limited to: <ul style="list-style-type: none"> • Procurement • Car parking income • Council Tax • Business rates • Direct Payments • No recourse to public funds • Abuse of position • Cyber fraud | 75 | 130 |
| Total days | | 475 | 500 |

* Adjusted to reflect transfer of responsibilities for liaison with the Single Fraud Investigation Service on housing benefit issues

| Other audit work | Focus | Planned days | |
|--|---|--------------|---------|
| | | 2016/17 | 2017/18 |
| Audit support corporate support and management | Includes planning and reporting, advice and information, support to the Audit & Standards Committee, management liaison, recommendation tracking. | 280 | 254 |

Appendix 2 – Internal Audit Charter

1. Introduction

This Charter describes for the Council the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Executive Leadership Team (ELT) and the board will be the Audit & Standards Committee (described generically in this Charter as the Audit Committee).

The Charter shall be reviewed annually and approved by ELT and the Audit Committee. The Head of Internal Audit is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS 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.

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain 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.

These regulations require any officer or Member of the Council to

- make available such documents and records; and
- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Council’s Financial Regulations.

In addition, the Council's S151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To

perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

Annually the Head of Internal Audit is required to provide to the Audit Committee an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Council.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Council risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Internal Audit has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance. This independence is further safeguarded by ensuring that the Head of Internal Audit's formal appraisal/performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chairman of the Audit Committee have the opportunity to contribute to this performance review.

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

6. Reporting Lines

Regardless of line management arrangements, the Head of Internal Audit has free and unfettered access to report to the S151 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chair; the Leader of the Council and the Council's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chair of the Audit Committee – on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

7. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

The Head of Internal Audit should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

8. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provide a specific named contact for each service; and, regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

9. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Head of Internal Audit is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Head of Internal Audit is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Head of Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

10. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- (i) The extent of work needed to achieve the required objectives;
- (ii) The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- (iii) The adequacy and effectiveness of governance, risk management and control processes;
- (iv) The probability of significant errors, fraud or non-compliance; and
- (v) The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

11. Quality Assurance

The Head of Internal Audit will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the council's Annual Governance Statement.

March 2017

Appendix 3 – Quality Assurance Improvement Programme

PURPOSE:

1. The OrbisIA Quality Assurance Improvement Programme (QAIP) is designed to provide reasonable assurance to its key stakeholders within Orbis Partner Authorities that Internal Audit:
 - Performs its work in accordance with its charter
 - Operates in an effective and efficient manner
 - Is adding value and continually improving the service that it provides
2. The Head of Internal Audit is responsible maintaining this QAIP which covers all aspects of Internal Audit activity. This QAIP seeks to conform with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as such includes both internal and external assessments.

INTERNAL ASSESSMENTS

3. Internal Assessment includes both ongoing and periodic reviews.

Ongoing Reviews

4. Ongoing assessments are conducted through:
 - Supervision of individual audit assignments
 - Applying relevant audit policies and procedures, including those set out on the OrbisIA Sharepoint Site, to ensure applicable audit planning, fieldwork and reporting quality standards are met
 - Review of all audit reports proportionate to the level of sensitivity (as determined by the Head of Internal Audit) prior to formal circulation
 - Feedback from auditees on individual audit assignments
5. The Audit Manager will assign audit work to the Assignment Lead and Assignment Manager giving due regard to their level of skills, experience and competence. The Assignment Manager will have the following responsibilities:
 - Review and contribute to the Terms of Reference
 - Support to, and liaison with, the Assignment Lead throughout the audit
 - Monitoring assignment progress and budget
 - Review working papers and draft reports
 - Review final report
6. Feedback from auditees and reviews of working papers and audit reports will form part of the discussion during monthly 1-2-1 meetings and periodic team review sessions in line with the Orbis approach to

Performance and Development; and will help inform formal appraisal discussions as required by the sovereign Authority.

7. OrbisIA team objectives and priorities will be agreed annually and comprehensive performance targets will be agreed with senior management and the board. For Brighton & Hove City Council “senior management” is the Executive Leadership Team (ELT) and the “board” is the Audit & Standards Committee. The Head of Internal Audit will measure, monitor and report on progress against these targets to ELT and the Audit & Standards Committee at least twice yearly. The key performance measures for 2017/18 are set out at Annex A.

Periodic Reviews

8. Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing; the Code of Ethics; and, Standards as set out in the PSIAS. These may be conducted through self-assessment or by other persons with sufficient knowledge of Internal Audit practices. The PSIAS Local Government Application Note and Checklist will be used as part of this evaluation.
9. An annual review of the effectiveness of the system of Internal Audit will also be conducted. This review is sponsored by the Audit Committee Chair who will also agree the specific terms of reference for that review. In drafting the Terms of Reference for this annual review the Head of Internal Audit will seek the views of the Section 151 Officer.

EXTERNAL ASSESSMENTS

10. An external assessment will be conducted at least once every five years as required by the PSIAS which came into effect on 1 April 2013 (and revised in April 2016).
11. The Head of Internal Audit will consider what form of external assessment is most appropriate eg a “full” external assessment or a self-assessment with independent validation. The scope of any external assessment will be discussed with the Section 151 Officer and agreed with the Chair of the Audit Committee and with the appointed external assessor.
12. Before appointing an external assessor, the Head of Internal Audit will have confirmed with the Chair of the Audit Committee that the assessor is competent in the area of professional internal auditing practices and the external assessment process. In determining competence the Head of Internal Audit will consider the level of experience gained in organisations of similar size and if in doubt will seek advice from CIPFA.
13. For an external assessment to provide a truly independent view, it is important that the appointed assessor has no real or apparent conflict of interest with the Council in general or the Internal Audit team in particular. The Head of Internal Audit will be alert to this risk when appointing the external assessor.

REPORTING

14. The outcome of any external assessment or periodic internal assessment (notably the annual review of the effectiveness of the system of Internal Auditor) will be reported to Senior Management and to the Audit and Committee on completion. The Head of Internal Audit will not state that the Internal Audit service conforms with the Internal Standards for the Professional Practice of Internal Auditing (ie the PSIAS in the UK Public sector) unless the results of the QAIP (including a completed external assessment) confirm this.
15. The Head of Internal Audit will take appropriate action to ensure that recommendations for improvement identified as a result of periodic internal or external assessments exercises are implemented as appropriate.
16. Progress in implementing agreed improvement plans will be included as part of the Head of Internal Audit's annual report to the Audit Committee.

Any significant deviations from the PSIAS will be brought to the attention of the Senior Management and considered for inclusion in the Annual Governance Statement.

Annex 1 – performance indicators

| Aspect of Service | OrbisIA Performance Indicators | Target |
|---|---|---|
| Quality | <ul style="list-style-type: none"> • Annual Audit Plan agreed by Audit Committee • Annual Audit Report and Opinion • Satisfaction levels | <ul style="list-style-type: none"> • By end April • To inform Annual Governance Statement • 90% satisfied |
| Productivity and Process Efficiency | <ul style="list-style-type: none"> • Audit Plan – completion to draft report stage | <ul style="list-style-type: none"> • 90% delivered |
| 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"> • Conforms • Conforms |
| Outcomes and degree of influence | <ul style="list-style-type: none"> • Implementation of management actions agreed in response to audit findings | <ul style="list-style-type: none"> • 95% for high priority (for BHCC we will also report progress against medium priority recommendations) |
| Our Staff | <ul style="list-style-type: none"> • Professionally Qualified/Accredited | <ul style="list-style-type: none"> • 80% |

