Internal Audit and Counter Fraud Strategy and Annual Plan 2018-2019

Brighton & Hove City Council

1. Role of Internal Audit

1.1   The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined 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."

1.2   The full role and scope of the Council's Internal Audit Service is set out within the Internal Audit Charter (Appendix B).

2. Risk Assessment and Audit Planning

2.1   The City Council's Internal Audit Strategy and Annual Audit Plan is updated annually and is based on a number of factors, especially management's assessment of risk (including that set out within the directorate and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2   The update of the annual plan for 2018/19 has involved extensive consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual directorates and corporately, are identified and considered.   In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, every effort has been made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2018/19 audit planning process:

2.4   In producing the audit plan (which is set out in detail in Appendix A to this report) the following key principles continue to be applied:

- All key financial systems are subject to a cyclical programme of audits covering, as a minimum, compliance against key controls;
- Previous reviews which resulted in 'minimal assurance' audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed actions. This will also include, where deemed necessary, reviews of audits that previously had a 'partial assurance' opinion or where the area under review is considered to be of a higher risk nature.
- Where practical audits will always be either aligned to strategic risks, or the individual audits will take account of these strategic risks in their scoping and delivery.

2.5   In addition, formal action tracking arrangements are in place to monitor the implementation by management of all individual high risk actions, with the results of this work reported to the Audit and Standards Committee on a quarterly basis. For Brighton and Hove City Council this is a departure from the 2017/18 arrangements which also included the monitoring and reporting of medium priority actions. This change has been made in order to maximise and prioritise limited audit resources on evaluating new risks and controls rather than the tracking of previous actions, which is properly the responsibility of service management. A copy of Internal Audit's Reporting and Escalation Policy is attached as Appendix C.

2.6   During the last two years, Surrey County Council, East Sussex County Council and Brighton and Hove City Council have been working together to develop and form the Orbis Partnership, covering a range of business services, including internal audit. This work has resulted in the formation of a single, integrated internal audit service from April 2018, involving three locality based teams supported by two specialist teams in the areas of ICT audit and counter fraud. It is our ambition that this will provide greater resilience and capacity for our partner councils whilst also building on existing high quality services.

3.   Key Issues

3.1   In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place. In order to respond to the continued reduction in financial resources and the increased demand for services, the Council needs to consider some radical changes to its service offer in many areas.

3.2   Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2018/19, a number of major organisational initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

- the Waterfront Project
- the Staff Wellbeing Project
- the procurement of the new housing management system (replacement for OHMS)
- the procurement of the new care management system. (replacement for Carefirst).

3.3 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2018/19 audit plan includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, Internal Audit will continue to work closely with senior management and Members throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect.

3.5 Other priority areas identified for inclusion within the audit plan include:

- A follow-up on the City Clean 2017/18 minimal assurance report.
- An audit of the Strategy Investment Strategy (Strategic Risk number 23)
- A review of the Councils Housing Allocations process.
- Review of compliance with the General Data Protection Regulations (GDPR)

3.6 For 2018/19 it is proposed that update reports will be based on the work completed in the preceding quarter of the year. As per previous practice, these reports will include progress on the plan to date plus a summary narrative detailing the key findings and conclusions of the audits finalised since the last report to the Committee.

4. Counter Fraud

4.1 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.

4.2 The Chief Internal Auditor 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.

4.3 In addition, Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss.

4.4 Significant resources continue to be provided (250 days) to support the Council's strategy to prevent and address housing tenancy and right to buy fraud. For 2018/19 a key target is to return 20 properties to the Council's stock where the tenant has illegally sublet the property or for other reasons has been found not to hold a legitimate tenancy.

5. Matching Audit Needs to Resources

5.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on

the adequacy and effectiveness of the Council's framework of governance, risk management and control.

5.2 In addition to this, resources have been allocated to the external bodies for whom Orbis Internal Audit also provide internal audit services, at an appropriate charge. These include Horsham District Council, Elmbridge District Council, East Sussex Fire Authority and South Downs National Park.

5.3 Internal audit activities will be delivered by a range of staff from across the Orbis Internal Audit Service, maximising the value from a wide range of skills and experience available. In the small number of instances where sufficient expertise is not available from within the team, mainly in highly technical areas, externally provided specialist resources will continue to be utilised.

5.4 The following table summarises the level of audit resources expected to be available for Brighton & Hove in 2018/19 (expressed in days), compared to the equivalent number of planned days in 2017/18. Whilst the overall level of resource has reduced for 2018/19, as part of the Internal Audit contribution towards planned organisational savings, it is still considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional [1]standards and to enable the Chief Internal Auditor to provide his annual audit opinion. Any impacts of such a reduction have been mitigated as far as possible through efficiencies and additional resilience offered from the Orbis partnership as explained above.

Table 1: Annual Internal Audit Plan – Planned Days (including counter fraud)

	2016/17	2017/18	2018/19
Planned Days	2,020	1,792	1,579

6. Audit Approach

6.1 The approach of Internal Audit is to use risk based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management's arrangements for:

- Achievement of the organisation's objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

6.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the plan, there are a number of generic areas where there are demands upon Internal Audit, some of which cannot be planned in advance. For this reason, time is built into the plan to cover the following:

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[1] Public Sector Internal Audit Standards (PSIAS)

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2017/18 plan;

- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

6.3 A summary of the allocation of audit resources (days) across the 2018/19 audit plan is set out in the following chart:

Summary allocation of resources 2018/19 (Days)
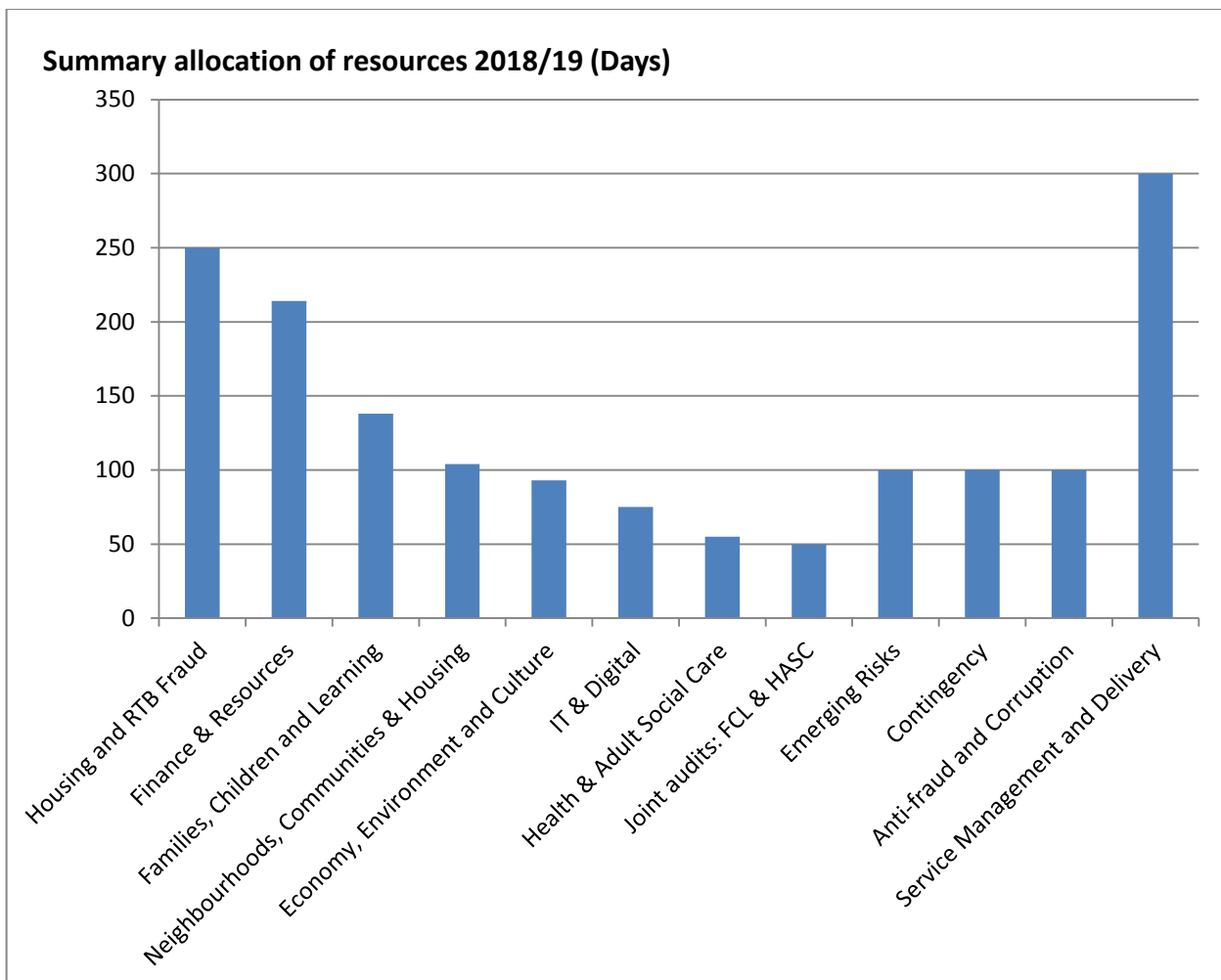
6.4 In delivering this strategy and plan the service will liaise with the Council's external auditors, Grant Thornton, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

7. Training and Development

7.1 The effectiveness of the Internal Audit Service depends significantly on the quality, training and experience of its staff. Training needs of individual staff members are identified through a

formal performance and development process and are delivered and monitored through on-going management supervision.

7.2   The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification.

8.   Quality and Performance

8.1   With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

8.2   Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the Internal Audit Charter, which confirms the Audit and Standards Committee's role as the Board.

8.3   The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to ELT and the Audit and Standards Committee each year, usually as part of the annual internal audit report. For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused;
- Promotes organisational improvement.

8.4   In addition, the performance of Orbis Internal Audit continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in table 2 below.

8.5   At a detailed level each audit assignment is monitored and customer feedback sought. There is also ongoing performance appraisals and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.

8.6   In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the audit plan are made to the Audit and Standards Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

8.7   Whilst Orbis Internal Audit liaises closely with other internal audit services through the Sussex and Surrey audit and counter fraud groups, the Home Counties Chief Internal Auditors' Group and the County and Unitary Chief Auditors' Network, we are continuing to develop joint working arrangements with other local authority audit teams to help improve resilience and make better use of our collective resources.

Table 2

Aspect of Service	Orbis IA Performance Indicators	Target
Quality	- Annual Audit Plan agreed by Audit Committee - Annual Audit Report and Opinion - Satisfaction levels	By end April To inform AGS 90% satisfied
Productivity and Process Efficiency	Audit Plan – completion to draft report stage by 31 March 2019	90%
Compliance with Professional Standards	- Public Sector Internal Audit Standards - Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms Conforms
Outcomes and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority
Our Staff	Professionally Qualified/Accredited	80%
Counter Fraud	- HRA houses returned to stock - Blue Badges cancelled - Concessionary Travel passes cancelled - Overpayments identified £100,000	20 25 50 £100,000

Russell Banks
Orbis Chief Internal Auditor

Detailed Plan

Neighbourhoods, Communities and Housing	
Review Name	**Outline Objective**
EU Grant - Sustainable Housing Initiatives in Excluded Neighbourhoods (SHINE)	To provide financial scrutiny and certification of the grant in accordance with the EU First Level Controller requirements.
Disabled Facilities Grant	Review and certification of the Disabled Facilities Grant Claim.
Housing management system procurement.	To provide ongoing review and assurance on the procurement of the new housing management system (replacement for OHMS).
Grants to community and voluntary organisations	An audit of the procedures and controls for the award of grants to community and voluntary organisations.
Housing Allocations	An audit of the processes and the system for the allocation of HRA properties to ensure properties are allocated in accordance with the approved Council policy.
Housing Repairs Contract	An allocation of time set aside for the review of the existing contract and/or the procurement process for the re-letting of this contract.
Temporary Accommodation	A review of the council's temporary accommodation budget including budget management risks and debt recovery.
Housing and RTB	The investigation and prevention of HRA housing fraud, including illegal subletting and the prevention of Right to Buy irregularities.

Finance & Resources	
Review Name	**Outline Objective**
Payroll	Annual review to ensure controls over payments to staff are accurate and complete and that payments to the HMRC and other bodies are made correctly.
Creditors	Annual review of controls over the accounts payable and creditors systems, to include data analytics on duplicate payments and high risk payment types.
Debtors	An annual review of the general debtors system. To ensure that all accounts are raised accurately and promptly, and that debt recovery processes are working effectively.

Review Name	Outline Objective
Council Tax	To provide assurance that controls over council tax collection are effective. Including billing, collection, recovery and the award of discounts.
NNDR	That controls over business rate collection are effective including billing, collection, recovery and reliefs.
Housing and Council Tax Benefits	Review of HB and Council Tax Reduction controls to ensure that benefits are accurately and promptly paid to those with a legitimate entitlement.
Personal Service Companies and Use of Consultants	An audit to provide assurance that the council complies with HMRC requirements in relation to personal service companies and consultants.
Wellbeing Project	To provide ongoing review and assurance on the Staff Wellbeing Project.
Contract Collusion	To obtain assurance that the council has appropriate processes and controls in place to prevent collusive tendering.
Agency Staff Contract	Review of the council's arrangements for the appointment, management and payment of agency staff under the corporate contract.
Budget Management	Audit of budget management to include the review of budget holder accountability and recovery plans.
Anti-fraud and Corruption	To cover the investigation of fraud and irregularities as well as proactive work including the National Fraud Initiative (NFI) data matching exercise.

Economy, Environment and Culture	
Review Name	**Outline Objective**
EU Grant - Shaping Climate change Adaptive PlacEs (SCAPE)	To provide financial scrutiny and certification of the grant in accordance with the EU First Level Controller requirements.
EU Grant - SOLARISE	To provide financial scrutiny and certification of the grant in accordance with the EU First Level Controller requirements.
Transport Capital Grants	To check and certify the grant in accordance with the requirements of the Department for Transport.
Waterfront project	To provide ongoing review and assurance on the Waterfront Project, focusing on specific areas of risk to be agreed with management.
On and Off Street Parking	Annual review of income management of on and off street parting including key reconciliations and income monitoring controls.
City Clean Follow-up	Follow-up on the 2017/18 of city clean commercial activities and contracts. To obtain assurance that agreed actions have been implemented, and related risks have been significantly mitigated.

Review Name	Outline Objective
Parking Permits	To provide assurance that processes ensure that permit applications are correctly processed and validated, so that they are only available to those residents who are entitled. This review will include a follow-up of actions agreed as part of previous audits.
Strategy Investment Strategy (Strategic Risk number 23)	To examine the controls that are in place to mitigate the strategic risk relating to the seafront infrastructure, including the processes in place to survey and review the condition of this infrastructure.

IT & Digital	
Review Name	**Outline Objective**
Mobile Devices Migration.	To obtain assurance on the BHCC migration from the Blackberry solution and to follow-up on the findings of the 17/18 audit review.
IT & Digital Projects	To review the project management arrangements for a sample of high priority IT projects.
System Access Controls	To obtain assurance that access to IT systems is promptly removed when staff leave the council, or take on other roles. This follows up on previous audit work and a corporate project to resolve control weaknesses which is not yet complete.
Third Party Services	To examine the controls over a sample of applications that are externally hosted. To include application controls, data security and business continuity arrangements.
GDPR	To review the council's compliance with GDPR including sample testing of priority areas.

Families, Children and Learning	
Review Name	**Outline Objective**
EU Grant- Providing Access to Childcare and Employment (PACE)	To provide financial scrutiny and certification of the grant in accordance with the EU First Level Controller requirements.
Troubled Families	To review and certify the council's troubled families grant claims.
School reviews	Allocation to include a sample of individual schools, general advice and the communication of guidance and best practice to schools.
Supported Accommodation	To audit the council's arrangements for providing support accommodation for young people, including an examination of budget pressures.
Care Leavers	A review of the council's arrangements for the support of care leavers (up to the age of 25). Including arrangements for assisting with employment and management of trust funds.
Nursery Services	To review council provided nursery services. To include budget management, high needs, sessional and Bright Start nurseries.

Health & Adult Social Care	
Review Name	**Outline Objective**
Home Care	To review the key controls over home care service delivery.
Extra Care Housing	To review the operation of the Brooke Mead Extra Care Housing Scheme including alignment to the original project outcomes.
Community Equipment Service	To follow-up on the 2016/17 audit of the community equipment service and contract, including the effectiveness of budget management.

Health & Adult Social Care/ Families, Children and Learning (Joint reviews)	
Review Name	**Outline Objective**
Care management system reprocurement.	To provide ongoing review and assurance on the procurement of the new care management system. (Replacement for Carefirst)
Learning Disabilities	To review the controls over the provision of learning disability services for adults.
Commissioning Arrangements - Joint Review	An audit of the overall commissioning and contract management arrangements across HASC and FCL.

Service Management & Delivery	
Review Name	**Outline Objective**
Audit & Fraud Management	Overall management of all audit and counter fraud activity, including work allocation, work scheduling and Orbis Audit Manager meetings.
Client Support & Advice	Ad hoc advice, guidance and support on risk, internal control and governance matters provided to clients and services throughout the year.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Orbits IA Developments	Audit and corporate fraud service developments, including quality improvement and ensuring compliance with Public Sector Internal Audit Standards.
Organisational Management Support	Attendance and ongoing support to organisational management meetings, e.g. Orbis Customer Board, IGB, OGB, Corporate Health and Safety Meetings.
External Liaison	Liaison with external auditors and other external bodies, including attendance at regional and national audit groups and counter fraud hubs.
Audit Committee and other Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings.

Review Name	Outline Objective
Audit and Fraud Reporting	Production of periodic reports to management and Audit Committee covering results of all audit and anti-fraud activity.
System Development & admin	Development and administration of Audit and Fraud Management systems.
Action Tracking	Ongoing action tracking and reporting of agreed, high risk actions.
Annual Report and Opinion, Annual Governance Statement	Creation of Annual Report and Opinion / Annual Governance Statement.
Strategy & Annual Audit Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.

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 ELT and the board will be the Audit and 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 Chief Internal Auditor 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 Chief Internal Auditor 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 Chief Internal Auditor 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 Chief Internal Auditor'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 Chair 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. Appointment and Removal of the Chief Internal Auditor

The role of Chief Internal Auditor is a shared appointment across the 3 Orbis partner authorities (East Sussex County Council, Surrey County Council and Brighton & Hove City Council).

In order to ensure organisational independence is achieved, all decisions regarding the appointment and removal of the Chief Internal Auditor will be made following appropriate consultation with Member representatives from each of the authorities' audit committees.

7. Reporting Lines

Regardless of line management arrangements, the Chief Internal Auditor 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.

8. 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 Chief Internal Auditor 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.

9. 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.

10.   Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Chief Internal Auditor 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 Chief Internal Auditor 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 Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

11.   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:

- The extent of work needed to achieve the required objectives;
- The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- The adequacy and effectiveness of governance, risk management and control processes;
- The probability of significant errors, fraud or non-compliance; and
- 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.

12.   Quality Assurance

The Chief Internal Auditor 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.

February 2018

Internal Audit
Reporting and Escalation Policy

February 2018

1. Introduction

1.1. The Public Sector Internal Audit Standards (PSIAS) require that internal audit activity must be free from interference in determining the scope of internal audit, performing work and communicating results. Timely and appropriate management responses to internal audit reports enable the Authority to demonstrate that it maintains high standards of internal control and governance in line with control objectives.

1.2. This policy will apply to the 3 Orbis Partner Authorities (Surrey County Council, East Sussex County Council and Brighton & Hove City Council). For ease of reference we have used the generic term "Audit Committee" throughout the document, which at the current time refers to the following committee:

Authority	Audit Committee
Surrey County Council	Audit & Governance Committee
East Sussex County Council	Audit, Best Value and Community Services Scrutiny Committee
Brighton & Hove City Council	Audit & Standards Committee

1.3. Each Audit Committee will be asked to approve this policy in order to ensure that any concerns are remedied in an appropriate and timely manner.

1.4. The policy is designed to provide clarity to all relevant parties over the respective responsibilities and expectations of internal audit.

2. Reporting

2.1. With the exception of investigations into alleged irregularities (which are subject to separate arrangements not covered in this policy), the following reporting and escalation arrangements apply to all audit reviews undertaken by internal audit.

3.   Draft Report

3.1.   Following completion of an internal audit, the auditor will produce a draft report, which is issued to the responsible manager (the client). The client will be asked to comment on the factual accuracy of the report.

3.2.   In this context 'factually accurate' means that the auditor's report (findings and risks) are based on a correct interpretation of the systems or circumstances pertaining to the review.

3.3.   Where appropriate, an exit meeting is held with the client and other officers. It is during this meeting that key points arising from the audit and factual amendments are discussed and actions agreed. Where possible service actions addressing findings should be captured for inclusion in the report.

3.4.   The agreement of actions and the accuracy of the report are, in many instances, agreed by email.

3.5.   Where the audit report opinion is Partial or Minimal, the relevant Director will be provided with a copy of the draft audit report.

4.   Escalation Process

4.1.   Upon receipt of the comments on the draft report, the auditor will consider if the actions therein are appropriate. If the auditor is satisfied that all factual points have been addressed; that the service has no outstanding concerns with the report, and that the agreed actions sufficiently addresses all the findings raised in the audit report, then the final report can be issued.

4.2.   If a response to the draft report is not returned in a timely manner, or in the auditor's opinion does not adequately address the issues raised, the Chief Internal Auditor or Audit Manager will discuss their concerns with the Head of Service. If that discussion does not result in agreed actions acceptable to internal audit, the issue will be referred to the relevant Director for a decision.

4.3.   The Director's decision will be either to agree acceptable action on behalf of the Head of Service, which must then be implemented within the agreed timescale, or to accept the position and acknowledge that the Director accepts the risk. Risks tolerated in this manner should be considered for inclusion on the service risk register.

4.4.   If in the opinion of the Chief Internal Auditor the Director's decision exposes the Council to an unacceptable level of risk, the matter will be referred first to the Section 151 Officer and/or Chief Executive and then to the relevant Audit Committee.

4.5.   Depending upon the time taken to agree a final report, the Chief Internal Auditor reserves the right to issue the final report without formal agreement and to report the findings and position to the relevant Audit Committee.

5. Escalation to the Chief Internal Auditor

5.1. All auditors will ensure the Chief Internal Auditor is provided with a copy of the final report for any audit with an opinion of Partial or Minimal Assurance. Any reports that are considered to be contentious should also be provided to the Chief Internal Auditor.

6. Report Distribution List

6.1. The final report should list the officers for whom the report has been prepared. This includes the client, the Head of Service and other key officers as set out in the agreed Terms of Reference.

6.2. The audit report is written for the officers named in the distribution list. The Chief Internal Auditor should be consulted before sharing the report any further.

7. Ownership of the Management Action Plan

7.1. Whilst agreed actions within the audit report may rest with one or more officers, the Head of Service has overall accountability for responding to the draft report in a timely manner and is required to inform internal audit if timescales are likely to be missed. In assigning their name to the report, Heads of Service are confirming that they accept responsibility for completion of the actions therein.

8. Reporting to Audit Committee

8.1. The Chief Internal Auditor will report on all audits completed since the previous meeting to the authority's Audit Committee, summarising the reason for the audit, the key findings, the risks resulting from those findings and the agreed actions.

8.2. The Audit Committee then considers whether further information or assurance is required.

8.3. Should the Audit Committee require an update on completion of actions for a particular audit, the relevant Head of Service is responsible for informing the Chief Internal Auditor of what actions have been completed or providing an explanation for any delay in, or change to, the action being taken.

8.4. A Head of Service may be required to attend the Audit Committee to provide further information or assurance in relation to completed audit activity and to answer any questions on the reasons for the non-completion of agreed action or delays in implementation.

9. Follow up reviews

9.1. A formal follow-up review of the progress made in implementing actions agreed within the report may be programmed into the annual Internal Audit Plan at a time the Chief Internal Auditor considers appropriate. A formal follow-up review is typically carried out for audits

that have attracted an audit opinion of "Minimal Assurance" and in some instances where a "Partial Assurance" opinion is provided.

9.2.   Upon completion of the follow-up review the auditor will report to the responsible officer drawing attention to any actions that have not been completed by the agreed date. A copy of the follow-up report will be sent to the full distribution list.

9.3.   In addition, the Chief Internal Auditor will provide a regular report to the Audit Committee on progress in implementing actions agreed for audits completed.

10.   Audit Opinions and Definitions

10.1.   The internal audit reports provide the following audit opinions :

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

11.   Limitations and Management Responsibilities

11.1.   The internal audit report explains the limitations placed upon our work and outline the responsibilities of Management:

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and

fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.