

**INTERNAL AUDIT & COUNTER FRAUD STRATEGY 2018-19****Purpose**

1. The purpose of the Audit & Counter Fraud Strategy is to set out the strategic approach which allows the Chief Internal Auditor to manage the service in a way that facilitate:
  - A sufficient review of the Authority's functions in order to form an annual opinion on the effectiveness of the control framework. This opinion forms part of the Annual Governance Statement, a statutory requirement and must incorporate a statement on Internal Audits conformance with the Public Sector Internal Audit Standards.
  - An assurance on the organisations governance and control arrangements, including risk management, through the annual audit plan in a way that gives suitable priority to the organisations objectives and risks
  - Improvement of the organisations governance, control and risk management, by highlighting exceptions to line management and agreeing mitigating actions
  - The identification of audit and counter fraud resources and that they are suitably qualified and experienced as required by either the Public Sector Internal Audit Standards in the UK or the Police & Criminal Evidence Act 1984.
  - Effective co-operation with external auditors
  - Value for money including selling of specialist and non-specialist skills to fee paying customers and joint working/shared arrangements
  - Proactive counter fraud activities including continuous fraud testing, publicity, lead on monitoring for compliance with counter fraud policies, advice and training of staff.
  - Reactive work such as general advice, consultancy services and investigations that add value to the organisation in meeting its objectives and aims to improve governance and risk management
  - Horizon scanning to ensure the inclusion in the audit risk analysis of key areas likely to impact on the organisation, including emerging areas of fraud and theft.
2. The Chief Internal Auditor is required to produce an Annual Plan for each financial year that translates into a schedule of audit assignments. It defines the area and duration of each audit based on each audit's programme, risk assessment, national or local impacts, any problems encountered and level and skill of staff involved.
3. In addition to the audit plan a counter fraud programme of activities is drafted and agreed following discussions with both the Section 151 Officer and the Monitoring Officer. This programme covers both proactive and reactive elements as previously identified under section 1 above. With progress reported on an annual basis to the Governance & Audit & Standards Committee.
4. All of these activities assist Services and the Organisation to manage

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governance, risk and assurance as a contribution to achieving the objective of creating a great waterfront city.

### **Scope and Responsibilities**

4. The scope and responsibilities relating to Internal Audit are specified in Financial Rules as well as in the Audit Charter and Code of Ethics. All officers within the Audit and Counter Fraud Section are responsible for ensuring compliance with this charter and code.

### **Audit Opinion**

5. The overall Annual Audit Opinion will be delivered in the Annual Report and will be based on the adequacy and effectiveness of controls tested within the control framework.
  - Achievement of organisation objectives;
  - Reliability and integrity of financial and operational information;
  - Effectiveness and efficiency of operations and programmes;
  - Safeguarding of assets; and
  - Compliance with laws, regulations and rules, policies, procedures and contracts.
6. Evidence for this opinion will be based on the coverage of the Audit Plan and the overall level of critical and high exceptions found on each of the Audits.
7. Critical exceptions are those exceptions seen as “show stoppers” i.e. control failures or weaknesses that could lead to prosecution or the imminent collapse of a system or service that would result in reputational and financial damage These will be reported to Members along with the managers proposed actions or actions that have been taken.
8. High risk exceptions are where action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not “show stopping” but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. If there are several high risk exceptions in one area Internal Audit will highlight these to Members as 'no assurance' audits along with the managers response.
9. Depending on the level of critical and high risk exceptions in comparison to the number of reviews carried out the opinion could range from no assurance, limited assurance, reasonable assurance to full assurance. The levels and control framework areas of critical and high risk exceptions will also be compared to previous year's levels to give an indication of improvement, or otherwise, in the effectiveness of the control framework.

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10. There is an in-house team of 14 FTE for the provision of the Internal Audit, Counter Fraud and related services with a significant proportion being sold to other local authorities and external organisations or for non-statutory audit duties such as investigations and compliance with National Fraud Initiative. The Chief Internal Auditor is currently the Chief Internal Auditor for Southampton City Council, the Isle of Wight Council and the Solent LEP.
11. The Public Sector Internal Audit Standards for Internal Audit in the UK requires that staff are suitably qualified and experienced. All current staff in Internal Audit either have a relevant qualification (MIIA or CCAB) or are in training to become qualified, in addition senior staff have several years internal audit experience. Staff specialise in specific areas and mentor other staff as successors; for example the Deputy Chief Internal Auditor specialising in IT Audits mentors a junior member of staff in that specialism, as part of their development.
12. Audit skills and resources are matched to the areas to be audited and any high risk audits that will not be covered are brought to the attention of the Corporate Governance Group which consists of the Chief Executive, Monitoring Officer, S151 Officer and the Director responsible for Audit & Counter Fraud as well as the Members of the Governance & Audit & Standards Committee, for them to make a decision on Audit resourcing.
13. In order to maximise resources between the External Auditors and Internal Audit, the Chief Internal Auditor and the External Audit Manager try to take into account where their resources can be shared. External Audit are allowed to place reliance on Internal Audit work, where they can, in order to form their opinion on the Authority's accounts. It may in some cases be more cost effective for Internal Audit to carry out some of the system work. However, this depends on Internal Audit priorities and resources available at the time. To this end the Audit Plan risk assessment takes into account (amongst other things) the External Audit interest in the Authority's financial systems.
14. The responsibility for fraud detection and investigation rests with managers. However, investigations have always been part of the audit function because of the independence of the function and the possession of the investigative and evidence gathering skills required and in order to identify weaknesses in control to prevent re-occurrences. All officers are appropriately trained in accordance with the Department of Works and Pensions (DWP) Investigation framework known as Professionalism in Security (PinS). This also includes training in the Police and Criminal Evidence Act 1984 (PACE) with experience in carrying out interviews under caution. One audit member of staff is qualified in Internal Investigations and one is qualified in forensic PC investigations.
15. There are some non-audit duties that are carried out because they sit within the audit and counter fraud skill mix and these are RIPA (Regulation of

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Investigatory Powers Act), and Anti Money Laundering investigations and reporting.

### Consultation

16. The Chief Internal Auditor consults with the Chief Executive, Deputy Chief Executive, Directors and the Chair of Governance & Audit & Standards prior to the start of the new financial year, requesting any additional items or other comments.
17. In order to preserve the independence of Internal Audit the final risk assessment and inclusion in the Annual Plan rests with the Chief Internal Auditor.

### Assignments

18. The determination of the audit universe and scope of Internal Audit is defined in the Audit Charter and Code of Ethics. The Annual Audit Plan is derived from the audit universe based on risk however the Plan must also make provision for the following areas regardless of any risk assessment;
  - **Data matching exercise (National Fraud Initiative NFI)** – a compulsory exercise matching records between authorities to identify any fraudulent claims. This is carried out every year with specified mandatory areas carried out bi-annually,
  - **Data matching exercises** - using internal software for matches beyond the requirements of NFI,
  - **External services** - including the provision of internal audit and counter fraud services for the Langstone Harbour Board and other Local Authority's for either core operational audits or to provide specialist areas such as IT Audit, NFI and investigative skills.
  - **Internal services** - MMD and Schools where Internal Audit is purchased under an SLA or contract.
  - **Follow-up Audits** – To ensure that critical and high exceptions have been implemented as agreed,
  - **Reactive work (Advice and unplanned work)** – To allow for; changes in priorities and issues that arise during the year; extensions to reviews where further testing may be required because of control weaknesses; advice on general control issues and Financial Rule Waiver requests,
  - **Investigations** – To provide an independent investigation service on internal irregularities and service abuse by external parties that require investigative and evidence gathering skills. This may also result in a review of controls post investigation as part of the core audit function,
  - **Fundamental Financial Systems** – including Payroll and main accounting,
  - **Audit slippage**- Audits started at the year end will often be completed in the early part of the new financial year.
  - **Counter fraud activities** – including on-going fraud checks, and completion of the counter fraud program as agreed with the s151 Officer and Monitoring Officer,
  - **Spot checks on Governance Arrangements,**
  - **Certification of some grant claims,**

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- **Emerging high risk areas** (These are generally activities that are identified as high risk from another audit review during the year but due to limited audit resources are deemed priority for the following year's audit plan).
20. The Financial Management Standard in Schools has undergone significant change and is no longer subject to external assessment. As well as this some schools are no longer under PCC jurisdiction. Therefore, the establishment audits of schools will no longer form part of the Audit Plan unless requested.

### **Priority**

21. The Accounts and Audit Regulations require that Internal Audit provide independent assurance on the control framework (the Audit Opinion) for inclusion in the Annual Governance Statement (AGS) therefore, the priority for the Audit Service must be to carry out and achieve the planned work as contained in the Annual Audit Plan. This currently equates to approximately, between 21 to 25% of the audit universe. This percentage will only decrease in agreement with the s151 Officer.
22. Once the items listed in paragraph 18 have been taken into account all other areas identified as being within the Audit remit will be subject to an Audit Needs Risk Assessment (ANRA).
23. The Audit Needs Risk Assessment takes into account the significant risks facing the organisation and assurance required which includes the drivers behind activities e.g. financial/ legal/ Government and the threats facing achievement of those objectives as well as tested control assessments. These are weighted by the number of years since a previous audit or whether or not it is a mandatory requirement.
24. The Section is resourced to cover only high-risk audits with an allowance for reactive and investigation work.
25. Investigation work in relation to potential service user abuse is prioritised on a case by case basis depending on the allegation or concern raised and the level of supporting intelligence. All internal investigations where concerns are raised against members of staff or contractors etc will be agreed by the Investigation Steering Panel (ISP). The members of which are Monitoring Officer, Section 151 Officer, Director responsible for HR and Chief Internal Auditor.

### **Horizon Scanning**

26. On-going horizon scanning is carried out to identify any new areas of emerging risk that may impact upon the Authority achieving its aims and objectives. The areas of concern identified are:
- Budget savings which could impact on existing system controls and adding risk because of loss of experienced staff, removing layers of management, reducing scope for separation of duties, pressures on service delivery etc.
  - Reduction in capacity of senior managers.
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- Change control as a result of system redesign and reorganisation.
  - Public Health Duties (Health and Social Care bill) which may bring risks because of increase in workloads or differences in such things as, risk and insurance treatment as well as due diligence, commissioning risks and value for money
  - Reduction in inspection and performance regimes resulting in a possible loss of governance and/or increased work pressures for Internal Audit for example on assisting with assurance reports to support the accounts.
  - Recessional difficulties as well as the austerity measures introduced by the Government could impact on the financial stability and contingency arrangements of third parties that contract with the Council,
  - Alternative delivery models for example shared services, outsourcing and partnership arrangement where issues such as monitoring, governance, right of access, financial and contingency arrangement along with the management of these projects may be encountered
  - The risks to property assets in particular landlord responsibilities and maintenance due to budget cuts,
  - Cyber security and the potential impact on systems / services should a cyber-attack occur.

### **Flexibility**

27. The Audit Plan will be reviewed quarterly and in consultation with the Section 151 Officer to take account of any significant changes in priority that has occurred during the year.

Elizabeth Goodwin  
Chief Internal Auditor

#### References:

*Audit Charter and Code of Ethics and Audit Manual;*  
*Public Sector Internal Audit Standards in the UK;*  
*Accounts and Audit Regulations;*  
*Money Laundering Regulations.*