

FAREHAM

BOROUGH COUNCIL

INTERNAL AUDIT STRATEGY

1. Introduction

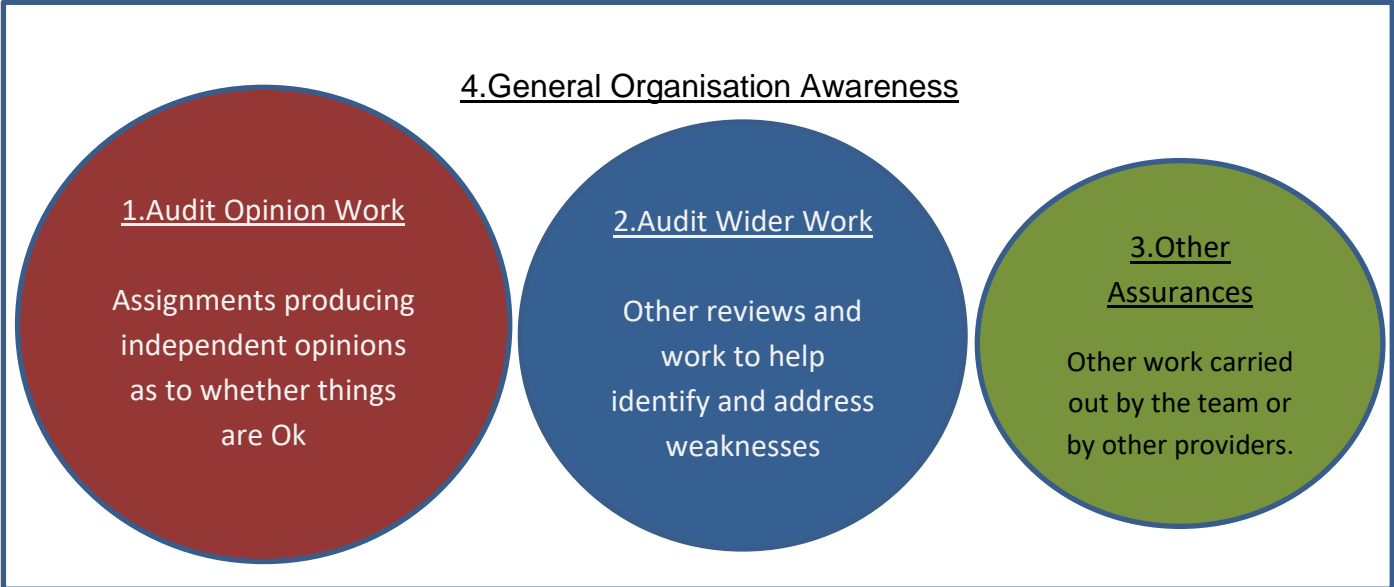
The Internal Audit Service, along with other assurance providers, forms the “third line of defence” for the Council after the controls and oversight processes established by management.

This is achieved by carrying out a programme of work which results in an Annual Audit Opinion providing a conclusion on the ‘*overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control*’.

This Strategy sets out the nature and extent of work proposed for this Council to support the Annual Audit Opinion. It supplements the Internal Audit Charter, which sets out the purpose, authority and responsibilities of the service, and helps demonstrate how the service will be delivered to meet the requirements of the Charter.

2. Sources of Assurance

This Strategy recognises 4 sources of assurance which can be used to support the Annual Audit Opinion. These are summarised in the diagram below and further in [Appendix 1](#) which shows the work involved in these groups and how they support the provision of the different parts of the Annual Audit Opinion.



Internal Audit Activity (1 and 2)

Two sources of assurance will come from the work carried out by the Internal Audit Service in delivering the planned list of assignments in the year, or completing assignments from previous years.

Audit Opinion work consists of fully independent risk based audits whose aim is to issue an “assurance opinion” on the adequacy of the system of internal control based using the 4-point scale set out in the Internal Audit Charter. These audits are selected from the Audit Universe.

Audit Wider Work is carried out for a specific purpose and the approach to the review is not risk based and an assurance opinion is NOT given at the end of the assignment. These reviews tend to be thematic, cross cutting or to help understand or address weaknesses.

Other Assurances (3)

The third source of assurance utilises other activity carried out by the Internal Audit team outside of the approved plan of work. This could be counter fraud reviews, investigations, responding to control failures or advisory work.

This Strategy also seeks to maximise the use of the assurances which are available from other sources and avoid duplication where possible. In particular, where services are provided jointly with **other councils**, agreements will be sought with their internal audit teams to rotate and share internal audit coverage.

ISA610 makes it harder for **external audit** to place reliance on internal audit work to meet their responsibilities. Instead arrangements will be explored to maximise the use that can be made of their work as a source of assurance for the Annual Audit Opinion.

General Organisation Awareness (4)

The other roles of the Head of Finance and Audit, outside of being the Chief Audit Executive, give the post-holder the opportunity to obtain other information to inform the Annual Audit Opinion. These roles and activities include:

- Financial information feeding into the Medium-Term Finance Strategy and Statement of Accounts.
- Facilitating discussions at the Chief Executive’s Assurance Group and development of the Annual Governance Statement.
- Leading on the collation and presentation of evidence for the 6 monthly risk management reports.
- Discussions with external auditors and inspectors.
- Work as a member or lead officer on corporate projects.

The size and culture of the Council also leads to a general good flow of information about governance, risks and controls, particularly across the wider management team, which includes the Head of Finance and Audit.

3. Quantity of Audit Work

The amount of work needed from the Internal Audit Activity to support the Annual Audit Opinion is left to the discretion of each organisation. In determining the level of work needed the following have been considered:

Assurances available from other sources

As outlined above other sources of assurance will be used to inform the Annual Audit Opinion on top of the work of the Internal Audit team.

Trends in the Profession

The CIPFA audit benchmarking club calculated that on average members were delivering 3 days of mainline audit per £m of Gross Expenditure in 2014/15. The analysis was based on 65 councils of all types. A similar level for this Council would be **180 days** of mainline audit work based on the Gross Expenditure for the General Fund and Housing Revenue Account in 2017/18.

An analysis has been carried out of the annual plans of 50 (25%) district council audit teams for 2018/19. The table below summarises how many pieces of work were used to support the Annual Audit Opinion.

| Number of Pieces of work | No of Councils | |
|--------------------------|----------------|-----|
| Up to 15 | 8 | 16% |
| 16-20 | 8 | 16% |
| 21-25 | 21 | 42% |
| 26 to 30 | 6 | 12% |
| 31 or more | 7 | 14% |
| | 50 | |

On average the Annual Audit Opinions were based on **21** individual audits assurances from **257** days of work. However, there was a significant variation on levels of coverage and the nature of the audit assignments and many councils no longer specific their audit plans in terms of the number of days.

Local Factors affecting the Level of Work needed

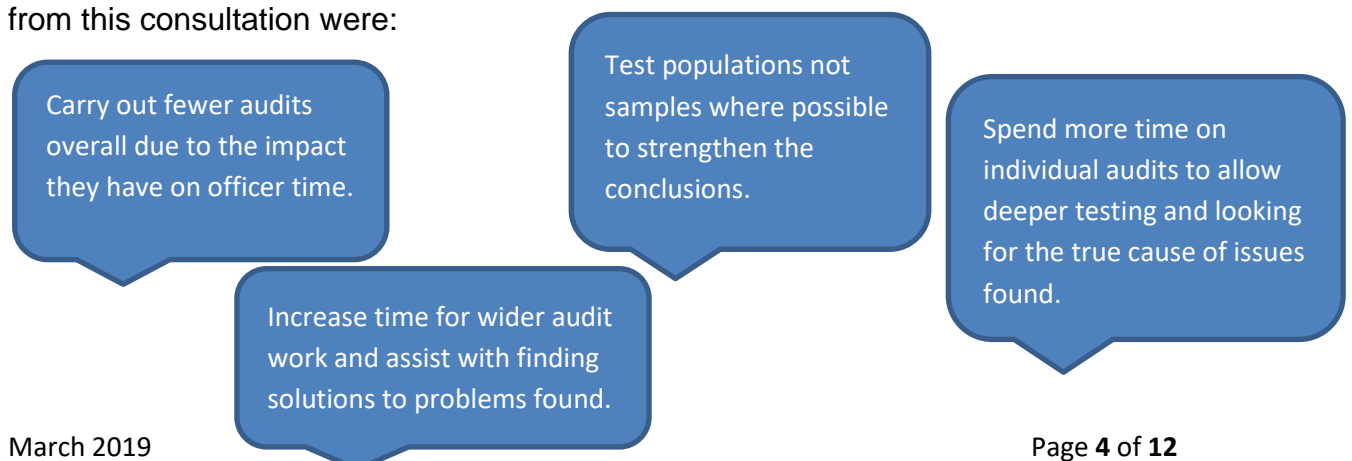
There are local factors which affect the level of audit work needed at any organisation. The South West Audit Partnership (SWAP) have piloted a model to allow Senior Managers to consider where their organisation sits within the model

and ultimately the effect on the level of audit work needed. The table below gives an assessment of where Fareham Borough Council sits in relation to these factors and other local factors.

| | SWAP Model | Other factors |
|--|--|---|
| FBC Factors decreasing the need for audit | <p>There is a corporate plan which sets out clear aims and objectives. The council has a sustained track record of achieving its objectives, on time and within budget.</p> <p>There is a mature, council-wide, risk management framework in place.</p> <p>Financial management is strong with both internal and external audit finding nothing significant to report for at least three years. Financial challenges are met robustly, positively and effectively with a clear and achievable medium-term financial plan.</p> <p>The Counter fraud framework is strong with effective counter fraud measures in place. Action is taken where incidents of fraud occur.</p> <p>No significantly adverse report, by an outside agency has been received by the council in the last three years (e.g. external audit, local government ombudsman, information commissioner)</p> <p>Staff turnover is low to moderate, with most senior and middle managers remaining in post for at least three years.</p> <p>Internal audit rarely offer 'no' or 'very limited' assurance at the end of their reviews.</p> | Structures and processes of the council had been undergoing a significant period of change (Vanguard reviews) but is now stabilising. |
| FBC Factors increasing the need for audit | The council is in a state of flux, with regular restructures and reorganisations taking place. | Funding of the Council has been significantly reduced and the risk appetite has had to increase as a consequence. |

Consultation with Managers

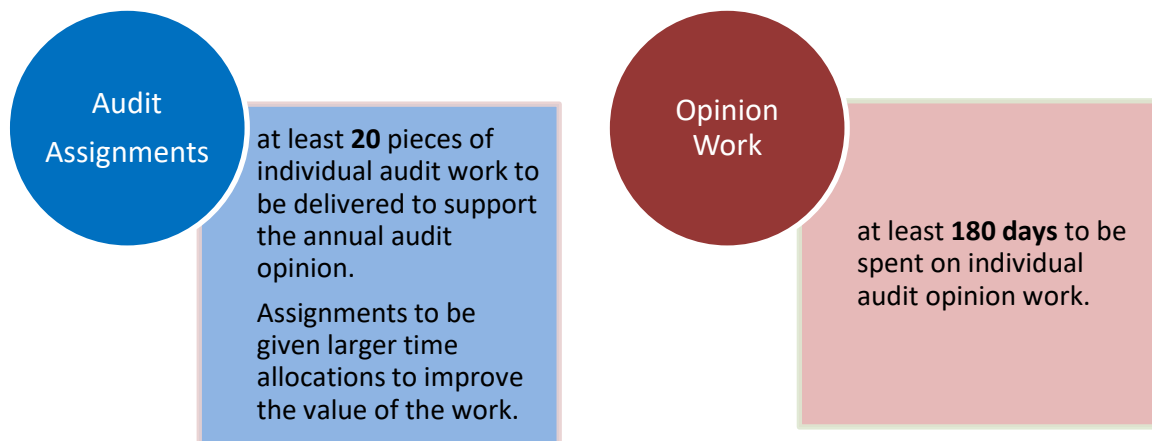
The views of the FBC Council managers were previously sought as to the nature and level of work they would like to see, and how the Audit Service fits into the “Vanguard” approach being adopted by the Council. The key messages arising from this consultation were:



Proposed Quantity and Type of Audit Work

This Strategy therefore seeks to maximise the value of the Audit Service to the organisation by delivering a balance of **audit opinion work** and **wider audit work** and continuing to use other sources of assurance to support the Annual Audit Opinion.

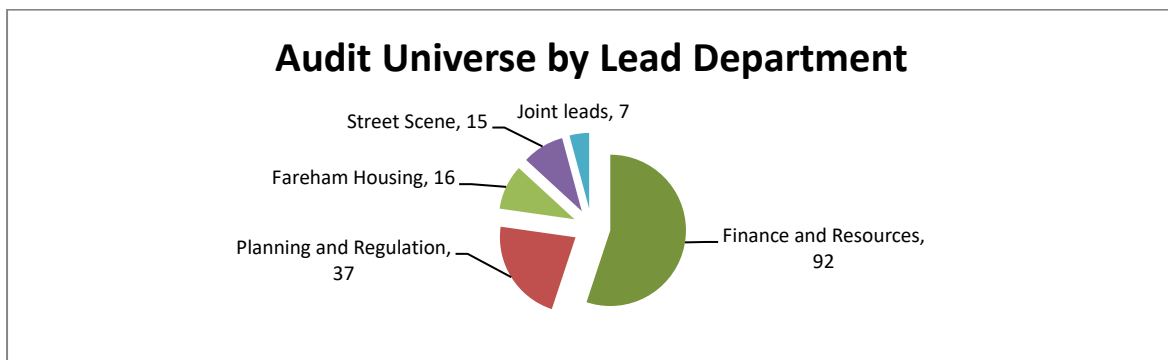
However, in setting the audit plan each year the following rules will be applied to ensure the plan is in line with trends in the profession, managers' requests and the factors affecting the local control framework:



4. Audit Opinion Work Priorities

Individual audit opinion work culminates in a service or system being assigned an audit assurance rating. This is based on the adequacy and effectiveness of controls found during the audit. The scale of opinions being used is set out in the Internal Audit Charter.

An **audit universe** is maintained of the services delivered by the Council plus the governance arrangements and systems in place which support the delivery of the services. The universe was last updated in January 2019 and captured **167** potential audit subjects. The split of these subjects by the lead department is shown below:



This Strategy requires a mix of audit types and departments to be included in the programme of work each year to support all the components of the Annual Audit Opinion. The table below shows a breakdown of the audit universe by type of audit and how these will feature in the programme of work.

| Treatment of Types of Audit when Setting the Annual Programme of Work | | | |
|--|----------------------------------|-----------------------------------|--|
| Type of Audit | Number in the FBC audit universe | Minimum Number to cover each year | Notes |
| Fundamental Systems | 12 | 4 | All to be covered in a 3-year cycle. |
| Corporate, Specialist, Governance & Risk | 29 | 1 | One subject to be covered each year to support the governance opinion. |
| Computer | 34 | 2 | IT systems supporting a fundamental system to be reviewed on a cyclical basis, usually with one being covered each year. 14 of the computer audits are currently included in the cycle. |
| Services and Systems – High Risk | 25 | 5 | All subjects to be covered in a 5-year cycle. |
| Services and Systems – Other | 67 | 2 | Selected each year on the basis of: ~ When last looked at and previous assurance opinion ~ Whether the service has been subject to a vanguard intervention ~ Other recent changes or issues arising ~ Managers preferences |
| | 167 | 14 | |

Fundamental Systems

The fundamental systems are those which are critical to the expenditure and income controls of the council and therefore will have an impact on the reliability of the Council’s Statement of Accounts. Twelve of these have been identified, as listed in [Appendix 2](#). In agreement with External Audit these audits will be carried out on a 3-yearly cycle.

High Risk Audits

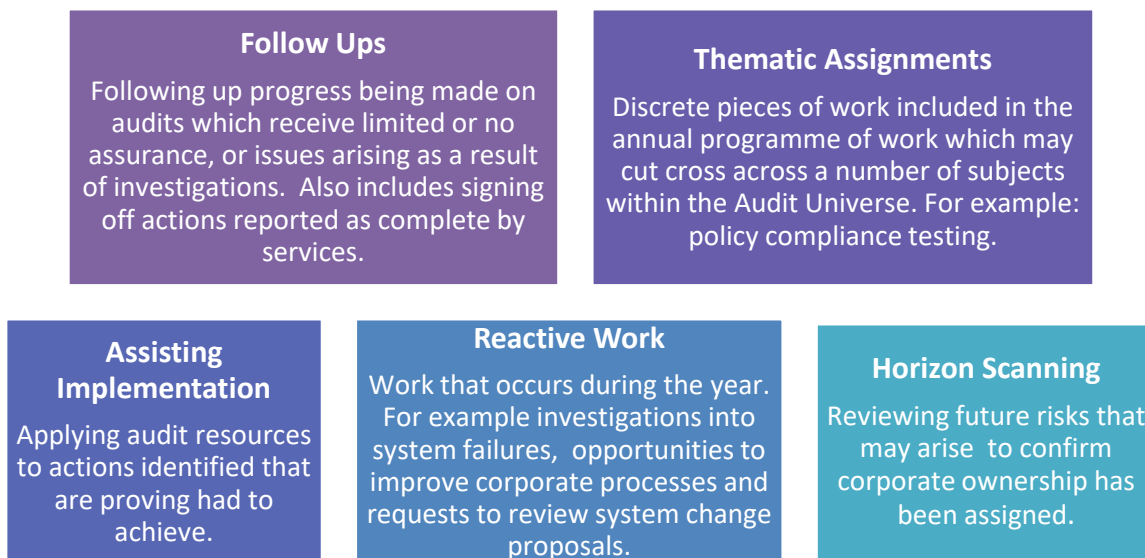
It is not possible with the current level of resources to audit all the subjects in the audit universe. Therefore, a risk assessment has been carried out to identify those subjects which are considered to be of high risk to the Council and therefore warrant a fresh audit opinion every 5 years.

Twenty-five of these have been identified as listed in [Appendix 2](#) along with the reason for them being considered high risk. It should be noted that this is based on *inherent risk* and is not a reflection of the control environment of those services. This list is reviewed annually considering budget and service changes and findings arising from thematic work.

5. Wider Work Priorities

This Strategy requires that time be included in the annual programme of work to complete work which is relevant to the overall Annual Audit Opinion but which will not itself result in an individual audit opinion.

The focus of this work in particular is to use the Internal Audit Service to assist with finding proportionate solutions to weaknesses identified and confirming these are in place. The diagram below gives a description of the types of activity that falls into this group of work.



6. Resourcing the Strategy

The Head of Finance and Audit will be responsible for setting a programme of work each year in accordance with this Strategy and reporting on the progress and findings on the programme to the Audit and Governance Committee. The programme will include contingency time which can be added to the allocation for individual assignments if issues are found during the audit.

Resources from the In-house Audit, Fraud and Assurance team will be used to deliver most of the **Audit Wider work** and **Other Assurances work**.

Bought in resources will mostly be used for the **Audit Opinion** work to provide an independent opinion on processes which the in-house team may have been involved in setting up. It will also help ensure delivery of this work if a major investigation occurs. However, the in-house team will provide day to day support for the delivery of this work including help determine any actions that are needed.

| Summary of how the Audit Work Activities will be Resourced | | |
|---|---|---|
| | Bought in Services | In-House Resources |
| Audit Opinion Work | Delivery of programme of assignments in consultation with Head of Finance and Audit | Support the programme of assignments including providing data extractions for testing, and liaising with service on appropriate action to be taken. |
| Audit Wider Work | Assist with Thematic reviews and follow ups when required. | Lead on recommendation management, horizon scanning and reactive work. Carry out thematic reviews and follow ups as time allows. |
| Other Assurances | | Compile the other assurances |

Mapping of the Groupings of Audit Work to the Elements of the Annual Head of Audit’s Opinion

| | Control Opinion | Governance Opinion (including information technology governance and ethics objectives) | Risk Management Opinion (including fraud) |
|---------------------------|--|---|---|
| Audit Opinion Work | Fundamental System audits Services and Systems audits Computer system audits | Corporate and partnership audits Contract and specialist audits Governance audits Computer strategy / Information audits | Risk Management audits Fraud reviews |
| Audit Wider Work | Recommendation Surveys Assisting implementation Audit Follow Ups Investigation Follow Ups | Themed Assignments Joint / Collaborative reviews Grant certifications Annual assurances Horizon Scanning | |
| Other Assurances | Reactive work including investigations External audit testing outcomes | External Assurances Partnership coverage by neighbouring councils | Counter fraud reviews |
| General Awareness | Wider Management team discussions Section 151 Group Assurances | Annual Governance Statement assurances Medium Term Finance Strategy | External audit identification and assurance of risks Risk Management progress reports Project teams |

The Standards requirements from Internal Audit Activity:

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of **governance, risk management and control**. (2450)

The internal audit activity must assess whether the **information technology governance** of the organisation supports the organisation's strategies and objectives. (2110.A2)

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's **ethics-related** objectives, programmes and activities. (2110.A1)

The internal audit activity must evaluate the potential for the occurrence of **fraud** and how the organisation manages fraud risk. (2120.A2)

The Fundamental and High-Risk Audits

Fundamental System Audits

| |
|--|
| Payroll and Employee Expenses |
| Accounts Payable |
| Banking |
| Income Management |
| Accounts Receivable |
| Main Accounting System and Budgetary Control |
| Capital Expenditure & Accounting |
| Treasury Management |
| Fixed Assets |
| Housing Rents |
| Local Tax Collection |
| Benefits |

High Risk Audits

| | Reason Assessed as High Risk |
|--|--|
| Tenancy Management | Gross Expenditure budget for 2019/20 is over £1million |
| Homelessness | |
| Property Maintenance and Inspections - Council Housing | |
| Street Cleansing | |
| Household Waste Collection | |
| Recycling | |
| Parks and Open Spaces | |
| Ferneham Hall | |
| Parking Enforcement | |
| Daedalus | |
| Local Plan | |
| Building Control | |
| Planning Applications | |
| Trade waste and recycling | |
| Parking Strategic Management | |
| Commercial Estates | Higher Risk Spend is over £500,000 |
| Housing Communal Services | |
| Housing Grants and Home Improvements | |
| Regeneration Projects | |
| Property Maintenance and Inspections - Non- Housing | |

| | Reason Assessed as High Risk |
|----------------------------------|---|
| Vehicle Management | |
| Sheltered Housing | Higher Risk Income is over £250,000 |
| Holly Hill Leisure Centre | |
| Developers Contributions | Potentially high-income process with high reputational risk and risk of penalties |
| Welborne | High Profile project |

Classification of Higher Risk Spend - Gross Expenditure less employee costs, capital charges and support services costs.

Classification of Higher Risk Income - Gross income less government grants and other grants.