

FAREHAM

BOROUGH COUNCIL

INTERNAL AUDIT STRATEGY

1. Introduction

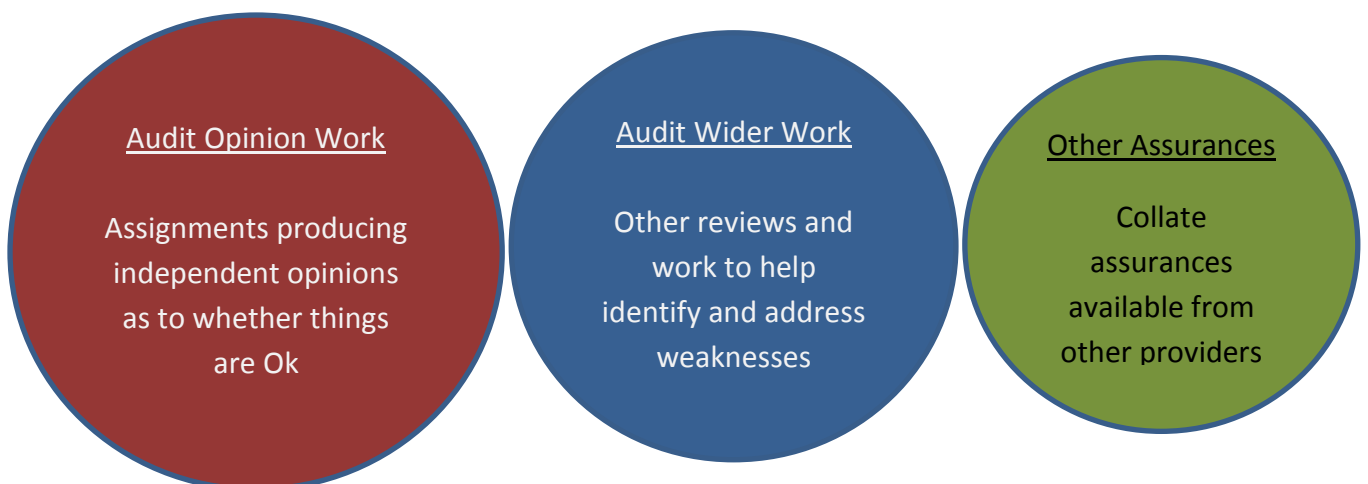
The Internal Audit Service, along with other assurance providers, forms the “third line of defence” for the Council after the controls and oversight processes established by management.

This is achieved by carrying out a programme of work which results in an Annual Audit Opinion 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.

2. Nature of Audit Work

This Strategy recognises 3 groups of work carried out by the Internal Audit Service, which can be used to support the Annual Audit Opinion. These are summarised in the diagram below. [Appendix 1](#) gives a further breakdown of the work involved in these groups and shows how they support the provision of the different parts of the Annual Audit Opinion.



Other Assurances

This Strategy 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 internal audit opinion.

3. Quantity of Audit Work

The amount of audit work needed 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:

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 Revenue Turnover in 2014/15. The analysis was based on 65 councils of all types. A similar level for this Council would be **173 days** of mainline audit work.

An analysis has been carried out of the annual opinions given by 51 (25%) district council audit teams in 2013/14. The table below summarises how many pieces of work were used to support the opinion.

Number of opinion audits	Number of Councils
Up to 15	9
16-20	12
21-25	19
26 and more	11
	51

On average the annual audit opinions were based on **22** individual opinion audits, although there was a significant variation on levels of coverage and the nature of the audit assignments.

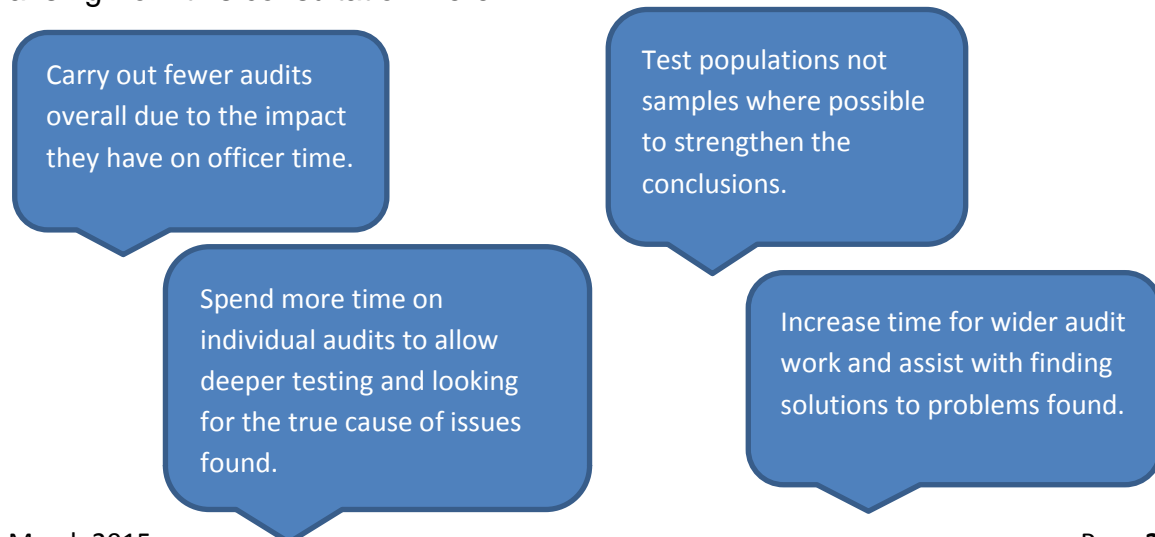
Local Factors affecting the Level of Work needed

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>	
FBC Factors increasing the need for audit	<p>The council is in a state of flux, with regular restructures and reorganisations taking place.</p>	<p>Funding of the Council has been significantly reduced and the risk appetite has had to increase as a consequence.</p> <p>Structures and processes of the council are undergoing a significant period of change (Vanguard reviews)</p>

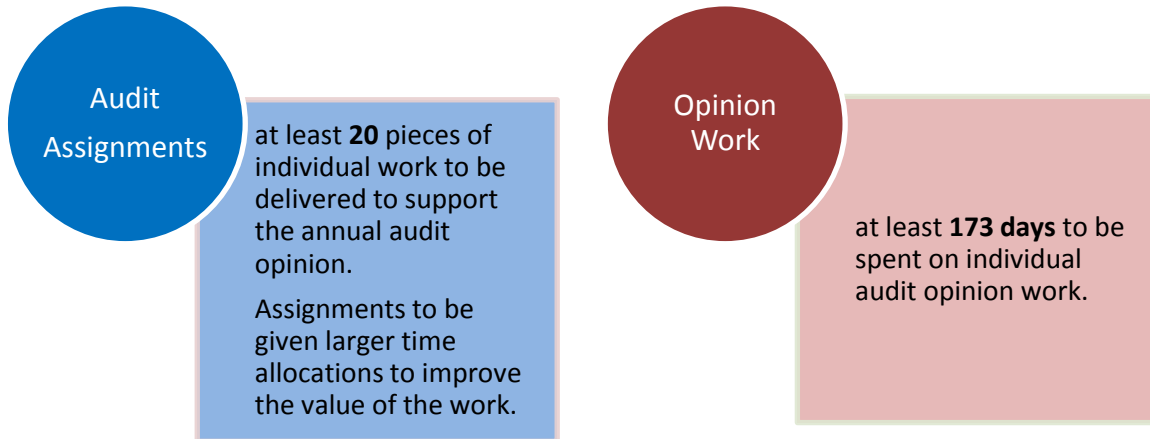
Consultation with Managers

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



Proposed Quantity and Type of Audit Work

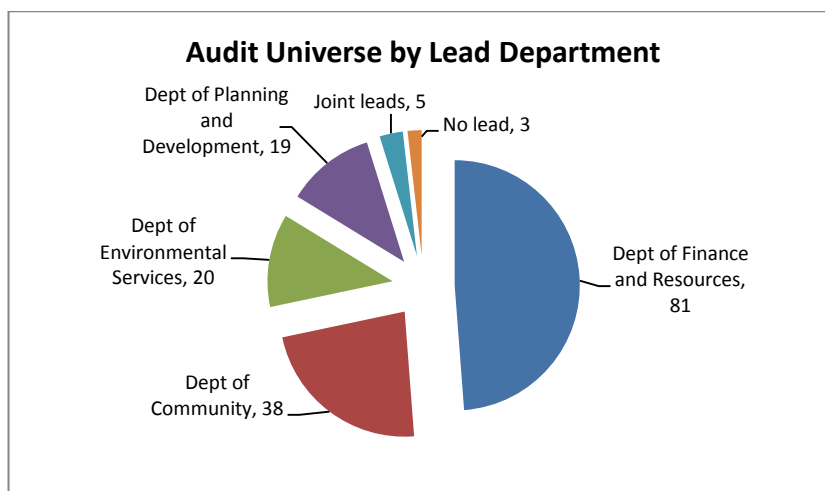
This Strategy therefore seeks to maximise the value of the Audit Service to the organisation by delivering a balance of **audit opinion work** and **wider audit work**. However, in setting the audit plan each year the following rules will be applied to ensure the plan is in line with trends in the profession, 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 2015 and captured **166** 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 in order 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	5	All to be covered in a 3 year cycle. Payroll and Accounts Payable to be subject to some annual testing.
Corporate, Specialist, Governance & Risk	28	1	One subject to be covered each year to support the governance opinion.
Computer	36	2	
Services and Systems – High Risk	16	3	All subjects to be covered in a 5 year cycle.
Services and Systems – Other	74	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
	166	13	

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 two of the audits will be carried out each year and the rest on a 3 yearly cycle.

High Risk Audits

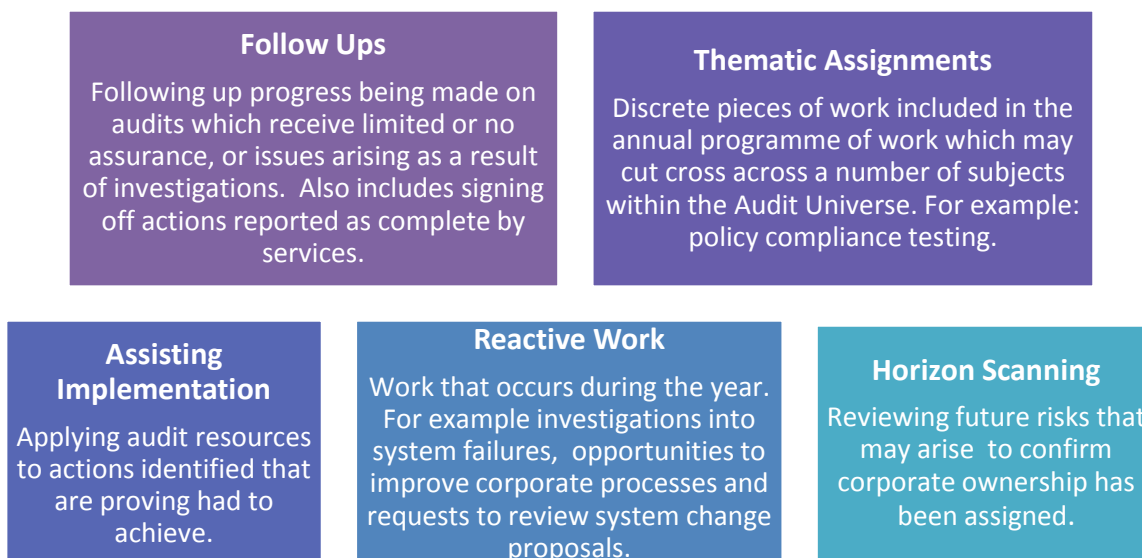
It is not possible with the current level of resources to audit all the subjects in the audit universe. Therefore a risk assessment has been carried out to identify those subjects which are considered to be of high risk to the Council and therefore warrant a fresh audit opinion every 5 years.

Sixteen 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 will be reviewed annually in light of 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 Audit and Assurance 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 course of the audit.

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

Bought in resources will be used for the **Audit Opinion** work in order 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 Audit and Assurance	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

Appendix 1

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

	Audit Opinion Work	Audit Wider Work	Other Assurances
Control Opinion	Fundamental System audits Services and Systems audits Computer- systems audits	Recommendation Survey Assisting implementation Audit Follow Ups Investigation Follow Ups Reactive work	External Assurances Section 151 Group Assurances External audit testing outcomes Partnership coverage by neighbouring councils
Governance Opinion (including information technology governance and ethics objectives)	Corporate, specialist and Governance audits Computer-strategy audits	Themed Assignments Horizon Scanning	Annual Governance Statement assurances Scrutiny Board Minutes
Risk Management Opinion (including fraud)	Risk Management audits		External audit identification and assurance of risks Council risk registers Fraud risk profiling CXMT Assurances

Public Sector Internal Audit Standards requirements from the Annual Audit Opinion:

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 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 2014/15 (less support services) is over £1million
Property Maintenance and Inspections - Council Housing	
Parks and Open Spaces	
Ferneham Hall	
Parking Enforcement	
Recycling	Gross Income budget for 2014/15 is over £500,000
Trade waste and recycling	
Parking Strategic Management	
Commercial Estates	
Building Control	Higher Risk Spend is over £500,000
Sheltered Housing	
Land Charges	Higher Risk Income is over £250,000
Planning Applications	
Disabled Facilities Grants	High inherent risk of fraud
Household Waste Collection	Critical service with high reputational risk
Developers Contributions	Potentially high income process with high reputational risk and risk of penalties

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.