

AUDIT COMMITTEE

10 JANUARY 2017

REVIEW OF AUDIT & COUNTER FRAUD QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

Report from: Katey Arrowsmith, Head of Audit & Counter Fraud
Shared Service (Chief Audit Executive)

Summary

This report presents the results of the review of the Audit & Counter Fraud Quality Assurance & Improvement Programme.

1. Budget and Policy Framework

- 1.1. Council delegates responsibility for the oversight and monitoring of internal audit and counter fraud to the Audit Committee.

2. Background

- 2.1. The Public Sector Internal Audit Standards (Standards) require that: *The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.* On 22 March 2016, the Audit Committee approved the Quality Assurance & Improvement Programme (QAIP) prepared to meet this requirement.

3. Review of the QAIP

- 3.1. The QAIP was prepared to reflect both the integration of counter fraud and the shared service with Gravesham Borough Council and was designed to meet the requirements of the Standards and CIPFA's Local Government Application Note to the Public Sector Internal Audit Standards.
- 3.2. The QAIP has been reviewed and is considered to continue to meet these requirements and will therefore continue to be in place for the coming financial year.
- 3.3. Minor amendments have been made to the descriptions and frequency of reporting for several performance measures, in order to bring the QAIP in line with the performance information currently being reported to the Audit Committee through the Audit & Counter Fraud Update Reports. This will not alter the level of performance information that Members are currently receiving.

3.4. At the time of its approval in March 2016, it was not possible for targets to be set for a number of performance measures; based on activity during the 2016-17 year, targets are proposed for the following performance measures in the revised QAIP presented for Members approval at Appendix 1:

3.4.1. PM2 – Average cost per assurance review; this has been set at £5,000 based on the outturn against this indicator being around £4,704 for the year to date.

3.4.2. PM3 – Cost per Audit & Counter Fraud day; this has been set at £350 based on the outturn against this indicator being £294 for the year to date.

3.4.3. PM9 – Investigator average caseload; this has been set at 10 to ensure that officers are able to effectively manage the investigation work allocated to them while balancing this with their assurance work.

3.4.4. PM19 – Time spent on CPD/non-professional qualification training, learning & development; this has been set at 70 days across the team, equating to a minimum of five days for each employee to ensure the team continues to develop its skills and abilities.

4. Risk management

4.1. The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. A Quality Assurance & Improvement Programme (QAIP) has been prepared to meet this requirement. The QAIP is intended to ensure that the service is developed in line with the aspirations of those charged with governance at Medway Council and Gravesham Borough Council.

5. Financial implications

5.1. An adequate and effective Audit & Counter Fraud function provides the council with assurance on the proper, economic, efficient and effective use of resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the financial statements of the council.

6. Legal implications

6.1. The Accounts & Audit Regulations 2015 require local authorities to: undertake 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. The Section 151 Officer of a local authority is responsible for establishing the internal audit service. Gravesham Borough Council has delegated this responsibility to the Section 151 Officer of Medway Council to deliver internal audit services through the Shared Service to both authorities. The Public Sector Internal Audit Standards are supported by CIPFA's Local Government Application Note to the Public Sector Internal Audit Standards.

7. Recommendations

7.1. Members approve the revised Quality Assurance & Improvement Programme presented at Appendix 1.

Lead officer contact

Katey Arrowsmith, Head of Audit and Counter Fraud Shared Service
katey.arrowsmith@medway.gov.uk

Appendices

Appendix 1 – Audit & Counter Fraud Quality Assurance & Improvement Programme.

Background papers

None.

Audit & Counter Fraud Shared Service
Medway Council & Gravesham Borough Council

Audit & Counter Fraud Quality Assurance & Improvement Programme 2017-18

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I. Introduction

The Audit & Counter Fraud Shared Service Charter sets out that the delivery of internal audit services will be in line with the Public Sector Internal Audit Standards (the Standards), with the delivery of counter-fraud and investigation services in line with relevant legislation and best practice. The Standards require the Service to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity: A QAIP is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The Standards require the QAIP to include both internal and external assessments.

This QAIP is intended to cover the Audit & Counter Fraud Shared Service for both the delivery of internal audit and counter fraud work wherever appropriate and to drive continuous improvement in the delivery of the service as a whole. For the purposes of the Public Sector Internal Audit Standards (PSIAS) the board is defined as the Audit Committee for Medway Council and the Finance & Audit Committee for Gravesham Borough Council. Senior Management is defined as the Corporate Management Team for Medway Council and the Management Team for Gravesham Borough Council.

II. Supervision & quality management

The Audit & Counter Fraud Service is structured to ensure that all officers are appropriately supervised and supported to deliver their work. Robust quality control arrangements are built into every stage of the process of planning and conducting audit and counter fraud work to ensure that the service delivers consistent and high quality outputs to both authorities:

- The Audit & Counter Fraud Shared Service works to an agreed process, developed in consultation with officers that includes the best elements from the previously separate teams. This process is delivered through standard template documents and is supported by a procedure manual. The process, templates and manual are all subject to periodic review.
- Routine supervision checks and one to ones are in place to support officers in the planning and delivery of all work. The 'matrix' structure of the service ensures that officers working at either site have a member of Audit & Counter Fraud management team on hand to provide ad-hoc support and supervision.
- Quality control arrangements are in place for the supervising officer to review and sign off the Terms of Reference of each piece prior to issue to the client, and for agreement of the programme of work to be completed in advance of the fieldwork beginning.
- Following the completion of each audit or counter-fraud review, the officer conducting the review carries out a self-assessment against the Standards based on a checklist developed for this purpose.
- Each completed audit or counter-fraud review has a detailed quality control review conducted by the senior officer responsible for supervising the review. This review seeks to confirm that:
 - The objectives and scope of the review have been met,
 - The right risks and controls (including those absent) have been identified,
 - Audit testing methodologies and samples are sufficient to reach reasonable conclusions,
 - Sufficient evidence has been collated to support the conclusions drawn, and conclusions drawn are soundly based,
 - Recommendations made are practical and address the weaknesses identified,

- No independence issues have arisen from the work carried out,
- Work completed is in compliance with the Standards,
- Agreed review budgets and timescales have been met.
- All final reports are reviewed by the Audit & Counter Fraud Manager or the Head of Audit & Counter Fraud prior to issue to the client.
- Ten percent of all audit and counter fraud reviews completed are subject to an additional quality control review by a member of the Audit & Counter Fraud management team, independent of the conduct of the initial quality review conducted. This review ensures consistency among the reviewers and these checks may be directed to the most complex or potentially contentious areas of work.

III. Internal assessments

On an annual basis, the Audit & Counter Fraud management team conducts a self-assessment of the compliance of the service with the Chartered Institute of Internal Audit (CIIA) definition of internal auditing, code of ethics and the Standards. Any areas of non-compliance are identified and a plan for addressing these is implemented.

Results of the Internal Assessment will be shared with the wider Audit & Counter Fraud Team and reported to senior management and the Audit Committees of both authorities.

IV. External assessments

The Standards require an external assessment to be carried out at least once every five years by a qualified assessor or assessment team from outside the organisation. This assessor should be independent to avoid any conflict of interest. The scope of this assessment will be agreed with the Section 151 Officers of both authorities as sponsors of the Shared Service.

The Chartered Institute for Internal Auditors (CIIA) have developed a QAIP Procedure and Evaluation document that will be used in advance of the external assessment to prepare the management team for the assessment process and results.

The Audit & Counter Fraud Shared Service proposes to schedule its first external assessment in the financial year 2017-18 to enable the service to establish and refine working practices and procedures in advance. The approach, including who will conduct this external assessment, will be agreed by the Head of Audit & Counter Fraud, S151 Officers and Audit Committees of both authorities.

V. Performance measurement & monitoring

The Audit & Counter Fraud Shared Service has arrangements in place to capture performance data across the delivery of all aspects of work. Performance measurement is based on the balanced scorecard approach to ensure all aspects of the team's activities are monitored and reported appropriately, covering four perspectives:

- Financial – measuring the cost of the service,
- Internal process – measuring how the service is delivered,
- Learning & growth – measuring how the service supports and develops staff,
- Customer – measuring customer engagement & satisfaction.

The service measures, monitors and reports against the performance indicators set out in the table on page 6 through the quarterly Audit Committee Update reports.

It is not appropriate to set targets for some indicators listed as the returns against these will be for information only and the service has no or limited control over the results, for instance the number of fraud referrals received by the team.

Ref	Indicator	Target	Frequency
Financial			
PM1	Total cost of the Audit & Counter Fraud Service compared to the 2015-16 baseline year budgets	N/A	Quarterly
PM2	Average cost per assurance review	£5,000	Quarterly
PM3	Cost per A&CF day	£350	Quarterly
PM4	Value of fraud losses identified, by fraud type (cashable & non-cashable)	N/A	Quarterly
Internal process			
PM5	Compliance with PSIAS	100%	Quarterly
PM6	Proportion of available resources spent on productive work	90%	Quarterly
PM7	Proportion of productive time spent on: a) assurance work b) consultancy work	55%	Quarterly
PM8	Proportion of productive time spent on: a) proactive counter fraud work b) reactive counter fraud work	45%	Quarterly
PM9	Investigator average caseload	10	Quarterly
PM10	Proportion of agreed plan delivered	95%	Quarterly
PM11	Proportion of assignments completed within allocated day budget	90%	Quarterly
PM12	Proportion of recommended actions agreed by client management	90%	Quarterly
PM13	Proportion of recommended actions implemented by agreed date	95%	Quarterly
PM14	Number of recommendations agreed that are: a) not yet due b) Implemented c) Outstanding	N/A	Quarterly
PM15	Number of referrals received	N/A	Quarterly
PM16	Number of investigations closed	N/A	Quarterly
Learning & growth			
PM17	Proportion of staff with relevant professional qualification	25%	Quarterly
PM18	Proportion of non-qualified staff undertaking professional qualification training	25%	Quarterly
PM19	Time spent on CPD/non-professional qualification training, learning & development	70 days	Quarterly
PM20	Staff turnover	N/A	Quarterly
PM21	Proportion of completed reviews subject to a second stage (senior management) quality control check in addition to the primary quality control review	10%	Quarterly

Ref	Indicator	Target	Frequency
Customer			
PM22	Customer satisfaction with overall service	95%	Quarterly
PM23	Member satisfaction with assurance provided (based on Chair of Audit Committee contribution to Appraisal of the Head of Audit & Counter Fraud role	Positive	Quarterly
PM24	Opinion of external audit	Positive	Quarterly
PM25	Customer satisfaction with individual review/assignment	95%	Quarterly

VI. Reporting

Quarterly update reports are prepared and presented to senior management and the Audit Committees of both authorities, providing details of the findings made by the team in delivering agreed work plans, and performance against the indicator suite according to the timescales set out in the table above.

An Annual Report is prepared and presented to senior management and the Audit Committees of both authorities, to provide:

- A summary of how the team’s resources have been used,
- A summary of the findings of the work of the service in the year,
- The opinion of the Head of Audit & Counter Fraud on the effectiveness of the overall control environment of each authority,
- A summary of the team’s performance against the indicator suite outlined above,
- The results of any internal and external assessments against the Public Sector Internal Audit Standards along with action plans for any gaps identified,
- Any other opportunities for improvement identified through the results of this QAIP.

This QAIP is subject to an annual review with the results presented to senior management and the Audit Committees of both authorities for approval.