

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

27th June 2014

Report of: Chief Internal Auditor

Title: Internal Audit Plan 2014/15

Ward: Citywide

**Officer presenting report: Melanie Henchy-McCarthy/ Alison Mullis,
Chief Internal Auditor (Job Share)**

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RECOMMENDATION

The Audit Committee is recommended to approve the Internal Audit Plan for 2014/15.

Summary

The attached report presents the Internal Audit Plan for 2014/15 for approval by the Committee. It details the planning process and identifies key areas of focus for the year. This report was presented to the Deputy Mayor and Cabinet Member for Finance and Corporate Resources on 10th June 2014.

The significant issues in the report are:

- the formulation of the Plan (paragraph 2.1 & 2.4)
- key features of the Plan (paragraph 3 and Appendix A)
- the Internal Audit Plan (Appendix A)

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Policy

The Audit Committee Terms of Reference includes overseeing the activity of Internal Audit.

Consultation

Internal: Strategic Directors, Service Director: Finance, City Director

External: None necessary

Purpose of the Report

- 1.1 The Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end, it should seek assurance that the key areas that contribute to this framework are operating properly.
- 1.2 The Council's Internal Audit service is a key component of the assurance framework and the Audit Committee's Terms of Reference includes a

requirement to provide independent assurance to the Council in relation to internal audit activity.

- 1.3 The Audit Committee need to consider if the planned Internal Audit work is appropriate and sufficient to provide the Committee with the assurance it requires and as such to monitor the service's performance against the plan.

Legal Framework

- 2.1 Internal Audit is a statutory requirement for local government under the Accounts and Audit Regulations 2011:
 - a) Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the proper administration of its financial affairs and ensure that one of the officers has responsibility for the administration of those affairs. Internal Audit supports the role of the Section 151 Officer by assessing the financial controls of the Council, in particular in relation to the main financial systems and provide assurances to the External Auditor regarding the reliance that can be placed upon these in agreement with working protocols developed with them.
 - b) Section 6 of the Accounts and Audit Regulations states that 'a relevant body shall maintain an adequate and effective system of internal control in accordance with proper internal audit practices'. These regulations emphasise the much wider role for Internal Audit and the need to consider all internal control arrangements and places emphasis on risk management and risk based audit planning.
- 2.2 The new Public Sector Internal Audit Standards 2012 are effective from 1st April 2013 and include guidance that the Committee should review, assess and approve the Internal Audit work plan.

Internal Audit Plan

- 3.1 The attached report details the processes undertaken to formulate the audit plan. The Committee will note that the Service has returned to an annual plan as opposed to quarterly planning last year. However, the plan will continue to be reviewed on a quarterly basis in order to ensure it remains focussed on the key risk areas within the control environment.
- 3.2 Performance against completion of the plan will be measured and reported in as part of the quarterly updates to the Committee.

4. Other Options Considered

- 4.1 None necessary

5. Risk Assessment

- 5.1 An adequate and effective internal audit service, as well as a statutory requirement, is an integral part of good governance. A sound Internal Audit planning process minimises the risk of non-compliance with statute and good practice, and at the same time maximises the value that Internal Audit adds to the

Council's governance arrangements and internal control environment.

6. Equalities Impact Assessment

6.1 None required for this report.

7. Legal and Resource Implications

Legal - none sought

Resources - none arising from this report.

Appendices: Appendix A - Audit Plan for Internal Audit 2014/15

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:

Audit planning files
Public Sector Internal Audit Standards 2013



INTERNAL AUDIT REPORT

APPENDIX A



Information Classification: Level 1 Due care

Internal Audit Forward Plan for 2014/15

Date: 27th June 2014

Issued by

A. Mullis & M. Henchy-McCarthy

Chief Internal Auditor (J/S)

Internal Audit is 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. (Public Sector Internal Audit Standards 2013)

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1. Purpose of this Annual Plan Report

1.1 This report provides an overview of Internal Audit's proposed work plan for 2014/15. Its purpose is to:

- Provide the Audit Committee with a summary view of the planned Audit coverage for 2014/15;
- Provide details of the methodology used to formulate the Plan;
- Draw attention to key areas within the proposed Plan;
- Provide details on the plan monitoring process, together with the follow-up and escalation process.

2. Formulation of the Plan

2.1 The Internal Audit planning process reflects the requirements of the Public Sector Internal Audit Standards 2013 (PIAS) and results in a risk based audit plan which is sufficiently flexible to reflect the changing risks and priorities of the Council. Delivery of the plan will enable the Chief Internal Auditors' to provide an evidence based opinion on the control environment in support of the Annual Governance Statement (AGS). The plan was formulated after consideration of the following:

- the Corporate and Directorate Risk Registers.
- early results of the Annual Governance Review process and the draft AGS (which is being considered by the Committee at its July 2014 meeting).
- outcomes of audits in 2013/14 and ongoing work
- an assessment of fraud risks utilising the work carried out by the service in 2013/14 and guidance as provided by National Fraud Authority and 'Local Government Fraud Strategy'.
- areas where assurance is provided by other auditors/inspectors
- The views obtained following consultation with:
 - Directorate Leadership Teams for each of the 4 new directorates, where possible, (People, Place, Neighborhoods and Business Change)
 - Service Director - Finance who is also the section 151 Officer
 - Other Service Directors/Managers in key areas
 - the External Auditor

2.2 Additionally, the plan reflects the ongoing need to facilitate the development of robust counter-fraud arrangements across the Council and its partners.

- 2.3 The Council is continuing to go through a period of large scale change to deliver services and priorities as well as budget reductions. Therefore, whilst an annual plan has been collated on a risk based approach, in order to ensure that the audit plan remains relevant throughout the year, the plan will be re-assessed quarterly in line with changing and emerging risks faced by the Council and relevant amendments made where necessary. The review will be completed in discussion with senior managers across the Council.
- 2.4 The table below provides the Committee with a summary view of the proposed coverage for 2014/15, split by audit type and providing indicative days, with full details of the Audit reviews provided in Appendix A.

Area of Work	Indicative Days
Assurance:	
• Strategic	65
• Financial	269
• Corporate	175
• Procurement	75
• Consultancy	165
• Grant Certification	90
• Information Security	92
• Operational	74
• Schools	133
Total Assurance Agenda	1,138
Fraud/VfM Agenda:	
• Pro-active Fraud Work	280
• Re-active Fraud Work	250
• Tenancy Fraud Work	465
• VfM Work (Specific Exercises)	44
Total Fraud/VfM Days	1,039
Development Agenda	118
Traded Assurance Programme	68
Total Available Productive Days	2,363

- 2.5 Internal Audit maintains an up-to-date Audit universe which contains many important areas where Audit attention is considered beneficial, but resources are not available to carry out the work at this current time. These areas will be considered as part of the quarterly review and as such would be covered should resources become available.
- 2.6 The level of resources available to Internal Audit during 2014/15 although 20% less than 2013/14 is reflective of the current re-shaping of the service and the aim to implement increased efficiencies in our working practices in order to achieve more with less. As detailed in our Annual Report 2013/14, the Audit Service has reduced in size overall, but at the same time we have taken the opportunity to re-shape the service, re-dress the skills balance and open up opportunities for others within the Authority. The overall impact in 2014/15 is less audit days, allowing for the corporate restructure to complete and for training of new staff, however going forward into 2015/16 and beyond, the Audit service will be adequately resourced and staffed to be resilient and fit for purpose.
- 2.7 Whilst Value for Money (VfM) work represents a small percentage of the overall Audit plan, VfM is integral to all of our work and is considered at each audit assignment as a matter of course. Additionally our proactive fraud and irregularity work often identifies significant VfM opportunities. This small allocation relates to specific and targeted VfM work we aim to complete which is not specifically covered elsewhere in the plan.
- 2.8 A significant proportion of our fraud resource is allocated to the Tenancy Fraud initiative which has proved very successful in the past three years. We hope to continue that success in this current year. Funding for this resource has been secured for 2014/15.
- 2.9 A flexible contingency allowance has been incorporated into the plan to allow for fraud responsive work, however with the introduction of a dedicated Fraud/Irregularity and VfM Team in July 2013, this year it is envisaged that should responsive work not materialise, this resource will be used to complete pro-active fraud work, further VfM exercises or other assurance work where it is considered a priority.
- 2.10 The plan includes an allowance for Public Health audit issues, the details of which will be confirmed as we become better aware of areas where Internal Audit assurances are required in this area.
- 2.11 To ensure the section continues to meet the requirements of legislation, relevant Codes of Practice, and remains up to date, the plan includes a resource to allow for research and development of new methodologies. This is particularly important during the current time when everybody is trying to deliver a better service with less resource.

3. The Audit Plan – Key Features

- 3.1 The plan reflects the highest risk areas to the Council and is designed to ensure that our assurance is targeted effectively to enable us to provide an opinion on the whole governance, risk and control framework. Significantly, this year, it is currently appropriate to ensure our resource is focussed in the following areas:
- **Strategic Reviews** - The plan includes top level reviews which cover council-wide themes such as Partnerships and Commissioning, whilst also reviewing specific areas such as Public Health.

- **Financial Governance** -The plan contains a high level of resource devoted to financial governance particularly in light of the initial problems encountered during the migration to the new financial system in 2013/14 and the issues identified concerning financial governance in previous years. Progress in improving the financial control has been positive in the latter end of 2013/14 and as such the focus of our work will be ensuring that the system is fit for purpose going forward and that all issues have been resolved appropriately. Additionally, the plan includes review of other key income streams within the Council.
- **Corporate Governance and Risk Management** – Areas to be reviewed include matters which may have an impact on the control environment within the Council as a whole. In particular the Change Programme, Business Continuity and the Annual Governance Statement, together with other high risks areas within our governance environment. Our work on Risk Management will be reducing throughout the year as a decision is made on where the function is best placed going forward. The plan does however allow for a review of the function in the latter part of the year.
- **Procurement** – this area continues to be considered high risk and vulnerable to fraud. It represents a significant element of the Council's operations and spend and as such poor controls and non-compliance with best practice is likely to result in poor value for money for the Council. Compliance within the Council as a whole has improved in the last year, however the need for a robust procurement framework is key and our reviews in this area support that goal.
- **Consultancy** – the Plan incorporates a comprehensive consultancy programme in order to allow Internal Audit to be involved at the initial stages of a project/programme to ensure the control framework is in place from the start. The Plan also allows for interaction with Members and our external partners.
- **Grant Certification** – the Plan incorporates an extensive grant certification programme which ensures maximisation of the Council's grant income. A small contingency has been built in for grants which may arise during the year.
- **Information Security Governance** – the Plan includes early consideration of the security arrangements in preparation for a more mobile workforce together with a series of risk based reviews throughout the year to evaluate information security governance in higher risk areas.
- **Fraud** – Given the continued increase in the risk of fraud as a result of the current economic circumstances and extensive change agenda, nationally and locally, the plan includes a strong anti-fraud agenda this year supported by the formation of a dedicated Fraud/Irregularity/VFM team within Internal Audit in the latter part of 2013/14. Additionally, our work in the area of Tenancy Fraud will be continued and enhanced to best utilise the funding awarded by the Department for Communities and Local Government for this purpose. Provision is also made to ensure targeted work is completed in several other high risk fraud areas and to review the output from the National Fraud Initiative in a timely and effective way.
- **Follow up** – the timely implementation of audit improvement recommendations, although much improved in the last year, remains a risk for the Council. Where high levels of risk are identified by our work, our follow up programme will continue to highlight and escalate to senior management and the Audit Committee those areas where timely improvements are not made.

- Value for money is key to making the most of the resources we have. As mentioned previously, targeted exercises have been identified for completion this year to supplement the VfM work already done as part of our assurance coverage and the proactive/reactive fraud/irregularity work completed.
 - Other high risk reviews are included in the plan based on our own risk assessment and the results of the consultation process described in section 2 above. These elements of the plan include:
 - audit coverage of high risk operational systems;
 - providing the required assurances for maintained schools;
 - Service development agenda: and
 - Traded Assurance programme.
- 3.2 From a review of the provision of Internal Audit Services to maintained schools as part of the Trading with School process we recommend maintained schools are the subject of an Internal Audit visit at least once every five years unless other factors require a more frequent review. When determining the schools audit plan for 2014/15 Internal Audit have considered factors such as: results from Schools Financial Value Standard assessments; whether schools have opted out of the Council approved financial system; and any reported concerns.

4. Plan Monitoring

- 4.1 Performance against completion of the annual plan will be measured and reported on a quarterly basis. The Audit Committee will be kept updated on the progress of the planned coverage and of how the service is progressing towards its set targets. Where issues arise which would significantly affect the service's ability to provide sufficient audit coverage to inform the annual opinion, the Committee will be updated at the earliest Committee meeting or off-line should the need arise.

5. Follow Up & Escalation Procedure

- 5.1 Follow-up audits are included in the plan with any arising in-year follow-up to be considered as part of the quarterly review of planned work.
- 5.2 Details of Audit follow up work will be reported to the Committee as part of the quarterly updates and annual report, with ad-hoc reports brought to the Committee should the need arise. Directorates/Services that fail to implement High/Medium recommendations within the agreed timescale, will be brought to the attention of the Committee.
- 5.3 The Escalation Procedure includes escalating issues of concern through the management structure and ultimately to the Audit Committee. Members are able, if appropriate, to call the relevant Strategic Director or Service Director/Manager to explain any failure to satisfactorily implement improvement recommendations or to confirm their acceptance of the risks associated with non- implementation of recommendations.

6. Context

- 6.1 The Audit Committee's Terms of Reference includes a strategic requirement to ensure that the Council's internal control and assurance framework is operating effectively. To enable them to do so, the Committee needs to ensure it seeks assurance that key areas that contribute to this framework are robust. The work of Internal Audit is a key component of the assurance provided to the Committee in fulfilling this role.
- 6.2 The Public Sector Internal Audit Standards 2013 guidance on the role of Audit Committees in relation to Internal Audit suggests that it should involve reviewing, assessing and approving the Internal Audit work plan and strategy for delivery of the Audit Service. Whilst this report will enable the Committees input to the work plan, the higher level statement of service delivery has previously been included in Internal Audit's Charter and Strategy which was reviewed in 2013 to reflect the introduction of the Public Sector Internal Audit Standards (PIAS) which came into force in April 2013. The revised Charter and Strategy document was approved by the Committee in November 2013.
- 6.3 The Internal Audit Annual Plan is attached at Appendix A for the Committee's consideration.

INTERNAL AUDIT PLAN FOR 2014/15

Directorate Key

BC	Business Change
CEO	City Director's Executive Office
CORP	Corporate/Council Wide
NH	Neighbourhoods
PEO	People
PLC	Place
External	Services Provided to Bodies Outside of the Council

ASSURANCE PROGRAMME

Directorate	Subject
Strategic	
CORP	Partnerships – themed audit - Terms of Reference and outcomes
CORP	Strategic Commissioning - Cross Directorate (incl follow up of previous audit and voluntary sector commissioning)
NH	Public Health - Analytical Review/Overview/Testing of grant conditions
PEO	Recruitment and Selection (inc Disclosure and Barring Service Checks) and Code of Conduct.
Financial	
BC	Payroll - P11ds
BC	ABW - Bank Reconciliation & Income Manager
BC	ABW – Budgetary Control 13/14 c/f and 14/15
BC	ABW – Debtors
BC	ABW – Ordering and Payments
BC	BACS System
BC	Housing Rents (incl impact of welfare reform)
BC	Welfare Reform - council tax reduction scheme
BC	Housing Benefits
BC	LTAX & NNDR – Income Collection, including, Refunds and Write Off & Exemptions
BC	Security Services/Cash in Transit
BC	Payroll starters and leavers
CORP	LEP and City Deal - Analytical Review and sample project review
CORP	Procurement Cards
NH	Crisis Loans
PEO	Better Care Funding
PEO	Children's Centres and Nurseries – Sample
PLC	Corporate Capital Programme Board
PLC	Parking – Income
Corporate	
CORP	Change Programme
CORP	Corporate Panels - People and non pay
CORP	Annual Governance Statement Review
CORP	Business Continuity Planning/Disaster Recovery
CORP	Hospitality registers and declarations of interest
CORP	Performance Management (completeness and accuracy of management information)
CORP	Audit of Risk Management
CORP	Scheme of Delegation
CORP	Complaints (collation, resolution and lessons learned)
Procurement	
BC	Procurement - Review of a sample of tenders (cross directorate)
CORP	Contracts where Payments are made in Advance
CORP	Procurement Fraud - awareness training - Follow up
CORP	Waivers
NH	Sports Centres contract
NH	Landlord Services. Follow Up & use of new frameworks
PEO	Electronic Monitoring System Contracts – Monitoring of providers.
Consultancy Programme	
BC	HR - New IT System
CORP	Financial Regulations
CORP	Debt Management Project
CORP	Corporate Recovery agency
CORP	Information Assurance Board
CORP	External Audit
CORP	General
CORP	Audit Committee

Directorate	Subject
CORP	Risk Management work
NH	Replacement of Housing Rents System
PEO	Replacement of Social Care System and ancillary finance system

Grant Certification Programme

CEO	Gigabit Grant
CEO	DECC Grant
CEO	Carbon Efficiency Grant 13-14 and 14-15
CORP	Other grants
CORP	Urbact Grant
PEO	Troubled Families Initiative Grant Certification Process – June & January Certification
PLC	Grant Certification (LSTF, BBAF, CAF)

Information Security

BC	Northgate System IT Review
BC	Network/Desktop Security Review (incl leavers)- including user access admin controls & Firewall
BC	Mobile device security
CORP	Information Security Review
PEO	Paris Application System
PEO	Protocol System

Operational

BC	Exempt Accommodation
NH	Licensing Enforcements and Co-ordination
PEO	Adults Residential - Supported Living Scheme- Health Checks
PEO	Area Social Work Team
PEO	Direct Payment - System and Control
PEO	Independent Living Service - systems and controls
PLC	1 x Business Park

Schools

PEO	1 x Secondary School
PEO	Formula for Financing Schools - Review of the Funding Allocation and include arrangements for additional funding i.e. pupil premium) - Including risks around changes to funding
PEO	Review of Traded Service Function - TWS
PEO	SFVS Returns- collation and review
PEO	15 x Primary Schools
PEO	2 x Special Shoools
PEO	School Fund Audit Certificate -Collation & Monitoring

Planned Follow Up reviews

PEO	CCTV Contract
PEO	Safeguarding
PEO	Supporting People Services
PLC	Markets Operation
PLC	Building Practice - Electrical Follow up

PRO-ACTIVE FRAUD AGENDA

Directorate	Subject
BC	NFI Council Tax SPD output
BC	NNDR Fraud Testing
BC	Expenses Fraud/VFM Testing
CORP	NFI - Main download (incl Contract)
CORP	Annual Fraud Survey
CORP	Fraud Prevention Officer agenda
CORP	NFI 13 Review of output
CORP	NFI Main run - output
CORP	Fraud web pages review
CORP	Gain Enquiries
CORP	Fraud and warning bulletins
CORP	Data Warehousing (Ealing model)
CORP	Invoice and Supplier duplicates
CORP	Fraud Line
CORP	Procurement intelligence database - Analytics
CORP	Whistleblowing compliance with best practice and improvements
NH	Fraud Awareness training
NH	Equifax re-run of data match
NH	Homelessness review + testing
PEO	NFI Direct Payments to Deaths
PEO	Direct Payments - Fraud control review
PLC	Parking income analysis
NH	Tenancy Fraud initiative(incl proactive exercises)

Directorate	Subject
NH	Discretionary Housing Payments
NH	Landlords in receipt of benefits
BC	Insurance Claim Intelligence

Specific Value for Money work

BC	Telephone bill - VFM review
BC	Tell us Once - deaths
BC	Debtors to Creditors Analysis
NH	Housing Voids

INTERNAL AUDIT DEVELOPMENT AGENDA

Directorate	Subject
CORP	West of England Networking Groups
CORP	Intranet update and maintenance
CORP	File access permissions/ file retention compliance
CORP	Data Sharing Agreement
CORP	Fraud Team Development
CORP	Networking Groups - General
CORP	Induction and Training Plan
CORP	General Audit Development

TRADED ASSURANCE PROGRAMME

Directorate	Subject
External	Avon Fire and Rescue Internal Audit Contract
External	Internal Audit Services to Academies – One World Learning Trust.
TWS	1 x School Fund and After School Club