

**BRISTOL CITY COUNCIL  
AUDIT COMMITTEE**

**26<sup>th</sup> June 2015**

**Report of: Chief Internal Auditor**

**Title: Internal Audit Plan 2015/16**

**Ward: Citywide**

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

**Contact telephone number: 0117 92 22063/22448**

**RECOMMENDATION**

The Audit Committee is recommended to approve the Internal Audit Plan for 2015/16 and re-approve the Audit Charter, Strategy and Terms of Reference following its recent update.

**Summary**

The attached report presents the Internal Audit Plan for 2015/16 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 Resources on 10<sup>th</sup> June 2015.

**The significant issues in the report are:**

- The formulation of the plan (paragraph 2 – 9 of report)
- Key features of the plan (paragraph 10 of report)
- The Internal Audit Plan 2015/16 (Appendix 1)
- The Internal Audit Charter, Strategy and Terms of Reference (Appendix 2)

**Policy**

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

**Consultation**

**Internal:** Directorate Leadership Teams, 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.
- 1.4 The Internal Audit Charter, Strategy and Terms of Reference are reviewed annually and have been updated to reflect the Accounts and Audit Regulations 2015 and the transfer of the Benefit Fraud Team to the DWP. The Charter, Strategy and Terms of Reference can be seen at Appendix 2 of the attached report with amendments marked for ease of reference.

## **Legal Framework**

- 2.1 The Accounts and Audit Regulations 2015 provide that the Council must ensure it has a sound system of internal control and that there is effective internal audit of its risk management, control and governance processes in accordance with public sector internal auditing standards or guidance.
- 2.2 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 provides assurances to the External Auditor regarding the reliance that can be placed upon these in agreement with working protocols developed with them.
- 2.3 The Public Sector Internal Audit Standards 2013 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 plan will 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 via in year 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 2015/16

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

Audit planning files  
Public Sector Internal Audit Standards 2013



**BRISTOL**  
**2015** EUROPEAN  
GREEN CAPITAL

# INTERNAL AUDIT: PLAN REPORT 2015/16

Date: June 2015

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independent evaluate data matching  
Public Sector Internal Audit Standards 2013 database interrogations  
advice assurance reviews objective improve operations  
advice on policies and procedures governance fraud investigations  
disciplined approach systematic investigations of irregularities range of skills  
consulting add value risk management  
school inspections post implementation reviews

## Purpose of this Annual Plan Report

1. This report provides an overview of Internal Audit's proposed work plan for 2015/16. Its purpose is to:
  - ❖ Provide the Audit Committee with a summary view of the planned Audit coverage for 2015/16;
  - ❖ 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.

## Formulation of the 2015/16 Audit Plan

2. 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 Risk Register and, where developed and available, information from 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 2015 meeting).
  - ❖ outcomes of audits in 2014/15 and ongoing work
  - ❖ An assessment of fraud risks based on our own knowledge and data gathered nationally in respect of Local Authority Fraud.
  - ❖ areas where assurance is provided by other auditors/inspectors
  - ❖ the views obtained following consultation with Directorate Leadership Teams, the Service Director - Finance who is also the section 151 Officer and other Service Directors/Managers in key areas
3. Internal Audit also has responsibility on behalf of the Council for facilitation of developments in the following areas and this work is also included in the work plan:
  - ❖ Strategic risk management facilitation and best practice development

- ❖ Co-ordination of assurances around corporate governance and compilation of the Annual Governance Statement
- ❖ Ensuring robust counter fraud arrangements are in place across the Council

4. Recognising that the Council continues its ambition to deliver change to service design and delivery, there will be a need to review and re-assess the plan throughout the year as new risks emerge and control environments change. In order to ensure that the audit plan remains relevant, it will be re-assessed quarterly and relevant amendments will be made where necessary in discussion with senior managers across the Council. Areas are prioritised for review in accordance with risk and available resources. Any areas not covered in the plan will be considered as part of the quarterly review and as and when resources become available.
5. The level of resources available to Internal Audit during 2015/16 has increased in line with us filling vacancies following the restructure of the team. Once recruitment is complete the service will be in a position to ensure comprehensive coverage of the highest risk areas and to extend coverage to areas which have not been audited for some time. The table below provides the Committee with a summary view of the proposed coverage for 2015/16, split by audit type and providing indicative days, with full details of the Audit reviews provided in Appendix 1.

Area of Work	Indicative Days
<b>Assurance:</b>	
• Strategic	165
• Financial	233
• Corporate	175
• Procurement	85
• Consultancy	246
• Grant Certification	127
• Information Security	125
• Operational	140
• Schools	163
<b>Total Assurance Agenda</b>	<b>1459</b>
<b>Fraud/VfM Agenda:</b>	
• Pro-active Fraud Work	652
• Re-active Fraud Work	340
• Tenancy Fraud Work	516
• VfM Work (Specific Exercises)	50
<b>Total Fraud/VfM Days</b>	<b>1558</b>

<b>Development Agenda</b>	<b>224</b>
<b>Traded Assurance Programme</b>	<b>73</b>
<b>Total Available Productive Days</b>	<b>3314</b>

6. The above demonstrates that resource levels allocated to both assurance and fraud agendas are similar. This is partly due to the fact that less resource is generally required to review systems of internal control than that taken to pro-actively target fraud risk areas or to thoroughly investigate allegations of fraud. However in addition to this, the Investigation Team has retained two staff from the Benefit Fraud Investigation Team following the team's transfer to the DWP effective from 1<sup>st</sup> April 2015. This is to ensure the Council can adequately deal with the information exchange requirements with this new arrangement and ensure the Council maintains a robust response to Council Tax Reduction Fraud. Additionally, included in the fraud resource is that of a Housing Advisor who has been seconded to the Investigations team to work with them on tenancy fraud.
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. This small allocation relates to specific and targeted VfM work we aim to complete which is not specifically covered elsewhere in the plan. Additionally our proactive fraud and irregularity work often identifies significant VfM opportunities.
8. A flexible contingency allowance has been incorporated into the plan to allow for fraud responsive work, however 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.
9. 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 all services are undergoing redesign to deliver a better service with less resource.

## The Audit Plan – Key Features

10. 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, our resource is currently focussed in the following areas:
  - ❖ **Strategic Reviews** - The plan includes reviews of key processes in place which contribute to the management of corporate risks to ensure the mitigations remain effective.

- ❖ **Corporate Governance**– Review of key elements of the Council's governance framework to inform the Annual Governance Statement. In particular, reviews of transparency culture and compliance with the new Transparency Code of Practice are included along with other core governance processes such as schemes of delegation and staff declarations of interest.
- ❖ **Financial Governance** -The plan retains a focus on financial control as the financial systems and structures continue to bed in. Additionally, 'non-core' financial systems that have not been reviewed for some time will this year receive attention such as housing benefits and parking income.
- ❖ **Procurement** – this area continues to be considered high risk and vulnerable to fraud. It represents a significant element of the Council's operations and spends and as such poor controls and non-compliance with best practice is likely to result in poor value for money for the Council. The need for a robust procurement framework is critical and our reviews in this area support that goal.
- ❖ **Consultancy and Risk Management** – 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 and work to facilitate and develop risk management arrangements across the Council will continue following a decision last year that this work will remain with Internal Audit.
- ❖ **Fraud** – A significant proportion of the plan is devoted to ensuring the Council has robust approaches to fraud. This year, at the request of SLT, we have increased our focus on specific fraud prevention work as well as maintaining a focus on proactive fraud detection, investigation and awareness. In addition to this, new responsibilities have transferred to the team in relation to housing benefit and Council tax reduction fraud following the transfer of the Benefit Fraud Team to the DWP's Single Fraud Investigation Service. 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.
- ❖ **Information Security Governance** – the Plan includes consideration of the security arrangements in place following the roll out of agile working for many staff. Additionally, given the move to ensure services are delivered digitally as far as possible, work is planned to review the resilience and security of our web platform.
- ❖ **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.
- ❖ **Follow up** – the timely implementations of audit recommendations remain critical 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. We will however continue to make use of interim reporting for areas where 'quick win' implementation can be achieved for an improved final report opinion.



## Plan Monitoring

11. 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.

## Follow Up and Escalation

12. 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.
13. Details of Audit follow up work will be reported to the Committee as part of in year 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.
14. The Escalation Procedure includes escalating issues of concern through the management structure and ultimately to the Audit Committee. Members are encouraged to require relevant Strategic Directors or Service Directors/Managers to explain any failure to satisfactorily implement improvement recommendations or to confirm their acceptance of the risks associated with non- implementation of recommendations.

## Context

15. 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.
16. The Internal Audit Annual Plan is attached at Appendix A for the Committee's consideration.
17. 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 also been reviewed and is attached at Appendix 2 for the Committee's consideration and re-approval. Only minor updates have been made regarding the removal of the responsibility for investigation of benefit fraud and to reflect minor changes reflected in the Accounts and Audit Regulations 2015.

**Internal Audit Plan 2015/16****Key**

CORP	Corporate/Council Wide Coverage
BC	Business Change Directorate
CD	City Director
NH	Neighbourhoods Directorate
PE	People Directorate
PL	Place Directorate
External	Services Provided to Organisations Outside of the Council

Directorate	Subject
	<b>Assurance Programme</b>
	<b>Strategic Risk</b>
CORP	Change Programme Financial Governance
CORP	Partnership Governance - Corporate Approach
CORP	Partnership Governance - LEP and City Deal
CORP	Recruitment & Selection (inc Disclosure and Barring Service Checks)
NH	Health and Wellbeing Board Governance
PE	Commissioning
PE	Care Act Implementation (eg Care Accounts)
PE	Joint Commissioning - Health Partnerships (NHS)
PE	Care Act/Better Care Funding
PL	Corporate Capital Programme Board
PL	Asset Transfer - Effectiveness of Policy/Community Transfer
PE	Safeguarding (Adults)
	<b>Governance</b>
CORP	Annual Governance Review and Statement
CORP	Code of Governance Review
CORP	Staff Declarations of Interest (tier 4 and below)
CORP	Recruitment Procedures - Employment Status
CORP	Freedom of Information Requests (including vetting of responses)
CORP	Transparency - Culture and Code Compliance
CORP	Reasonable Assurance Mapping
CORP	Business Continuity Planning/Disaster Recovery
CORP	Schemes of Delegation - All Directorates
	<b>Financial Control Reviews</b>
BC	ABW - Bank Reconciliation & Income Manager + follow up
BC	ABW – Budgetary Control
BC	ABW – Debtors - B/F
BC	ABW – Ordering and Payments + follow up
BC	BACS System
BC	Payroll - Additions, Deductions, P11ds
BC	Duplicate Payments - Effectiveness of Fiscal Solutions
BC	Treasury Management
BC	Value Added Tax
BC	Housing Benefits - compliance testing, master file amendments and manual adjustments
BC	Housing Rents - Follow up
BC	Welfare Reform - Readiness
BC	Security Services/Cash in Transit

PL	Parking – Income
BC	Scan Coin
CORP	Corporate Panel Effectiveness ( Pay and non pay)
PE	Budgetary Control - People Directorate
PE	GC - Payment Review
PE	Pearsons Financial System
PE	SEN Spend - Non DSG
	<b>Grant Certification</b>
BC	Gigabit Grant
BC	Bath/Bristol Investment Funding April 12 - March 15
BC	Carbon Efficiency Grant 14-15
CD	DECC Grant
CD	Other grant
CD	Urbact Grant
NH	Scambuster Grant Audit
PE	Troubled Families Initiative Grant Certification Process – Complex criteria, Jan Certification
PE	Troubled Families Initiative Grant Certification Process – Complex criteria, June
PE	Grants to Voluntary Organisations
PE	Cycle City
PL	LSTF West
PL	LSTF Key Component
PL	Better Bus Area Fund 2
PL	Elena Grant
	<b>Procurement</b>
CORP	Procurement - Review of a sample of tenders
BC	Contracts - Monitoring of Provider
CORP	Procurement Waivers - review of Waiver granted
CORP	Procurement Strategy
CORP	Contracts where payments made in advance
CORP	Sports Centres contract
NH	Social Care Payments (Payment processes)
PE	Private Finance Initiative A
	<b>IT System Reviews</b>
BC	HR - Implementation of new system
BC	Network/Desktop security
BC	Mobile Device Security
CORP	Website resilience (Digital service provision)
CORP	Information Security (embeddedness of principles)
NH	Housing Management IT System
PE	Oracle Systems (Home to school, Spec Needs, Admiss, Pupil Track) plus unix operating
PE	Liquid Logic (Social Care system) - Follow up
	<b>Operational Control Reviews</b>
NH	Public Health - Alcohol and Drug Treatment Services
NH	Repairs Repairs - Plumbing, Electrical, Carpentry
PE	Homelessness - use of resources/providers
PE	Home to School Transport - Client Side
PE	Emergency Control Centre (relocation)
PE	Bristol Community Links 3 Hubs
PE	East Bristol Intermediate Care Centre (incl procurement card usage)

PL	Facilities Management - Markets Operations
PL	Warm Up Bristol
PL	Harbour Management
CD	Bristol 2015 (1st Audit) - b/f
CD	Bristol 2015 (2nd Audit)
CD	Bristol 2015 (3rd Audit)
CD	Green Capital - allocation of arts grants
	<b>Consultancy Programme</b>
CORP	Audit Committee Support
CORP	External Audit Liaison
CORP	Information Assurance Board Attendance
CORP	Financial Regulations Development
CORP	Applied Programme Involvement
CORP	Waste Company - Audit and Advice
NH	Energy Company - Audit and Advice
PL	Risk Management - Corporate Risk Register - Quarterly Review
CORP	Risk Management Guidance (including web pages review)
CORP	Risk Management Policy Review
CORP	Risk Management Overview and Reporting
CORP	Risk Management Integration and Automation
CORP	Risk Mangement Benchmarking/Best Practice
	<b>Schools</b>
PE	Review of Traded Service Function - TWS - bf
PE	Schools opted out of BCC Payroll
PE	SFVS Returns to inform audit planning and collation of returns by May 2014
PE	Collating SFVS Returns due by 31 March 15 - Q3 and Q4 work
PE	Primary School Capital Programme
PE	Primary Schools - 16
PE	Secondary Schools - 1
PE	Special Schools - 3
PE	Nursery/Childrens Centres - 7
	<b>Fraud Agenda</b>
CORP	<b>Policy and Reporting</b>
CORP	Fraud Policy Review
CORP	Fraud Risk Register Review
CORP	Whistleblowing compliance with best practice including confidence survey
CORP	National Fraud Benchmarking Questionnaire - CIPFA
CORP	Transparency Code Reporting
CORP	Fraud and Error Update to Members
BC	Money Laundering Review
NH	Better Enforcement Group
	<b>Fraud Prevention and Awareness</b>
BC	Continuous Data Matching - Citizen Index
CORP	Fraud Cause and Prevention Review
BC	Fraud Awareness - Elected members
CORP	Extended Leadership Team - Fraud Awareness Session
CORP	Fraud web pages review
CORP	Fraud and warning bulletins
PE	Fraud Awareness Training - Schools
BC	Strategy/plan.

PE	Fraud Controls Review - Direct Payments - bf
PL	Fraud Controls Review - Blue badge/concessionary fares, Parking Zone
BC	Fraud Control Review - Cyber Security Policy
CORP	ID Validation project
PE	Schools Fraud Healthcheck
PE	No Recourse to Public Funds
CORP	Fraud controls - Follow up work
	<b>Fraud Detection - Proactive Testing</b>
BC	NNDR Fraud Testing
BC	Insurance Claim Intelligence
BC	Procurement intelligence and analysis
CORP	National Fraud Initiative
CORP	Procurement Card - Fraud Controls review and testing
PL	Parking income analysis
NH	Licensing Fraud controls
BC	Council Tax Reduction
PE	Direct Payments - Targeted Testing
CORP	Duplicate Payments - Fiscal Fraud Module
BC	Benefit Fraud - information exchange with DWP and monitoring outcomes
	<b>Fraud Responsive</b>
CORP	Responsive Investigations - contingency
CORP	Gain Enquiries
BC	Residual BFIT Prosecutions
	<b>Tenancy Fraud Initiative</b>
NH	Tenancy Fraud Investigations
NH	Housing Register NFI exercise
NH	Fraud Awareness Training - Enforcement/Dog Wardens
NH	Fraud Awareness Training - CSPs
NH	Fraud Awareness - Housing Partnership
NH	Fraud Awareness Training - New Estates Staff
PE	Fraud Controls Review and Testing - Homelessness
	<b>Value for Money - Specific Reviews</b>
CORP	Debtors to Creditors Analysis
CORP	Corporate Telephone Bill incl Mobiles
PE	Approach to debt recovery in care services (foster care, meals service)
NH	Emergency Accommodation Providers
	<b>Audit Service Development and Redesign</b>
CORP	Networking and Best Practice Development - Core Cities
CORP	Networking and Best Practice Development - West of England Groups
CORP	Networking and Best Practice Development - Western Unitaries
CORP	Service Benchmarking
CORP	Audit Automation Business Case + Implementaion
CORP	Peer Review (Standards Requirement)
CORP	Charter and Strategy Update
CORP	Staff Training and Development
CORP	Offer development, publicity and marketing for income generation
CORP	Intranet Guidance - E Service Delivery
CORP	Performance Monitoring and Periodic Reporting
CORP	Best Practice Development

	<b>Commercial Revenue Generating Activity</b>
External	Avon Fire and Rescue Service - Delivery of Internal Audit Service
External	Academies - Delivery of Internal Audit Service to 2 academy schools
External	Provision of training to other LA's re Tenancy Fraud Approach

## BRISTOL CITY COUNCIL

### INTERNAL AUDIT CHARTER, STRATEGY & TERMS OF REFERENCE

#### 1. Purpose and Statutory Requirements

- 1.1 The purpose of the Internal Audit Charter, Strategy and terms of reference is to define the purpose, authority, scope and responsibility of Internal Audit. It complies with the mandatory requirements of the Public Sector Internal Audit Standards.
- 1.2 Internal Audit is an independent, objective assurance and consulting function that is designed to add value and improve an organisation's objectives. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating, reporting on and recommending improvements where necessary to secure effective risk management, control and governance processes.
- 1.3 Internal Audit is a statutory service in the context of the **Accounts and Audit Regulations 2015**<sup>4</sup>, which state in respect of Internal Audit that:

"A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. A relevant authority must 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"

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- 1.4 Internal Audit must comply with the Public Sector Internal Audit Standards (PSIAS) which became mandatory across the UK public sector from the 1 April 2013. The purpose of the PSIAS is to define the nature of internal auditing within the UK public sector, set basic principles for carrying out internal audit, establish a framework for providing internal audit services and establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 1.5 The work of Internal Audit forms an essential part of the assurance framework in place which informs management when considering and compiling the Annual Governance Statement. However, the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

#### 2. Scope

- 2.1 The scope for Internal Audit work includes the whole control environment comprising risk management, internal control and governance. This effectively means that Internal Audit independently reviews all of the Council's operations, resources, services and processes in place to:
- establish and monitor the achievement of Council objectives
  - identify, assess and manage the risks to achieving the Council's objectives
  - facilitate policy and decision making
  - ensure the economical, effective and efficient use of resources
  - ensure compliance with established policies, procedures, laws and regulations
  - safeguard assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
  - ensure the integrity and reliability of information, accounts and data, including internal and external reporting.

- 2.2 Where the scope of the audit work extends to services provided through partnership arrangements, ~~the~~ The Chief Internal Auditor will decide, in consultation with all parties, whether Internal Audit staff conduct the work to derive the required assurance themselves or rely on the assurances provided by other auditors. Where necessary the Chief Internal Auditor will agree the appropriate access rights in order to obtain the necessary assurances.

### 3. Authority

- 3.1 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free and unrestricted access to any and all Council records (whether manual or computerised systems), personnel, cash, stores, other assets and premises, including those of partner organisations, where appropriate and have authority to obtain such information and explanations as considered necessary to fulfil Internal Audit responsibilities.

- 3.2 The **Accounts and Audit Regulations (England) 2015** provide that:

*Any officer or member of that body must, if the body requires:*

- (a) *make available such documents and records as appear to that body to be necessary for the purposes of the audit; and*
- (b) *supply the body with such information and explanation as that body considers necessary for that purpose.*

- 3.3 All Directorates of the City Council, or partners/agents contracted to provide services on its behalf, are required to give complete co-operation to Internal Audit staff for the expedient fulfilment of the audit process.

### 4. Definitions and Responsibilities of Officers and Members in relation to Internal Audit

- 4.1 For the purpose of this Charter, Strategy and Terms of Reference the following definitions shall apply:

- The Board = the Audit Committee - those charged with independent assurance on the adequacy of the Council's risk management framework, the internal control environment and the integrity of financial reporting arrangements.
- Head of Paid Service = The City Director - who has responsibility for the corporate and strategic management of the authority.
- Senior Management = the Strategic Leadership Team - those responsible for the leadership and the direction of the Council. Senior Management are also responsible for ensuring that internal control, risk management, and governance arrangements are sufficient to address the risks facing their Services including the risk of fraud and corruption.
- Section 151 Officer = undertaken by the Service Director: Finance. The officer is responsible for: ensuring lawfulness and financial prudence of decision making; providing financial advice; internal control; risk management; setting financial standards; and ensuring key financial controls are in place to secure sound financial management. One of the ways this duty is discharged is by maintaining an adequate and effective internal audit service.
- Monitoring Officer = The Head of Legal Services – with responsibility for maintaining the Constitution; ensuring lawfulness and fairness of decision making; providing legal advice; and conducting investigations.

- 4.2 Internal Audit responsibilities include:



- formulation and delivery of an internal audit strategy which will enable the Chief Internal Auditor to provide management and the Audit Committee with the required objective opinion on the internal control, governance and risk management arrangements in place across the City Council to inform the Annual Governance Statement.
- reporting significant risk exposures and control issues identified to management and the Audit Committee, including fraud risks, governance issues, and other matters and making recommendations for improvement.
- ensuring the Council has a robust and proactive approach to fraud identification and investigation, investigating alleged frauds and other irregularities
- the review and certification of grant/funding claims as required.
- driving, embedding and supporting effective risk management arrangements across the City Council on behalf of SLT the Member and Officer Champions for risk management and Members.
- providing reports to the Audit Committee to enable it to discharge its duties.
- co-ordinating, on behalf of management, an annual review of the internal control environment in support of the Annual Governance Statement.
- raising awareness of internal control, risk management and governance across the City Council.

~~4.3 The Chief Internal Auditor is also managerially responsible for the Housing Benefit Fraud Investigation Team. Synergies arise from the two sections working closely, particularly around National Fraud Initiative work.~~

## **5. Accountability**

- 5.1 Internal Audit is located within the Business Change Organisational Development Directorate. The Chief Internal Auditor's line manager is the Service Director Finance who monitors the performance of the Chief Internal Auditor and the audit function.
- 5.2 The Chief Internal Auditor reports functionally to the Audit Committee in terms of approving the Audit Charter and risk based plan, reviewing the section's performance and effectiveness, receiving the Chief Internal Auditors Annual Report and other reports.
- 5.3 The Chief Internal Auditor has direct access to the Chair of Audit Committee and has the opportunity to meet with the Audit Committee in private.

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## **6 Independence and Objectivity**

- 6.1 Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management. The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of Internal Audit Activity.
- 6.2 Internal Audit operates within a framework that allows unrestricted access to senior management and Members, particularly the Mayor, the Chair of the Audit Committee, the Strategic Leadership Team and the City Director. The Chief Internal Auditor reports in their own name to the Strategic Leadership Team and the Audit Committee.
- ~~6.33~~ As far as practicable, Internal Audit will not participate in the day to day operation of any systems without agreement of the Audit Committee. However, in strict emergency situations only, Audit personnel may be called upon to carry out operational work.
- ~~6.44~~ Where non audit work, or consultancy work is requested/required, the Chief Internal Auditor will ensure that there are no conflicts of interest arising from undertaking the

consultancy work and if necessary make alternative arrangements for internal audit review of any area where such a conflict exists.

- 6.55 Where staff move into Internal Audit from a different part of the organisation, they will not complete audit work in that area for a period of at least 1 year.

## **7. Ethics**

- 7.1 To enhance an environment of trust between auditors and management, all staff involved in the delivery of the Internal Audit service comply with the code of ethics laid down in the Public Sector Internal Audit Standard (PSIAS). Staff induction and training ensures all staff are aware of this requirement. Additionally, many Internal Audit staff are bound by the ethical codes of the professional bodies they have qualified with and all are bound by the Council's own Code of Conduct for employees. Fundamentally, the following ethical standards will be observed:
- Integrity
  - Professional objectivity and independence when providing opinions, assessment and recommendations.
  - Competence and due professional care
  - Confidentiality - Internal Audit staff will ensure that the information they receive is safeguarded from unauthorised release or disclosure unless there is a legal or professional obligation to do so.
  - Ensuring information is not used for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Council.
- 7.2 Internal Auditors are required to complete a Declaration of Interest every two years to ensure that any interests are known by management and safeguards can be put in place as required. Additionally, they are required to declare any potential conflicts of interest at the start of an audit assignment.

## **8 Internal Audit Activities**

- 8.1 The primary task of Internal Audit is to review the systems of governance, risk management and internal control operating throughout the Council and in this a predominantly risk based approach to assessing controls will be adopted.
- 8.2 A risk based plan of audit work is prepared annually, and reviewed quarterly, informed by risk registers prepared by management, performance management and other assurance processes where these are sufficiently robust to be relied upon. Where the outputs from these processes are not judged to be sufficiently reliable, Internal Audit will undertake its own risk assessment.
- 8.3 Audit plans will be agreed with Senior Management and the Section 151 Officer, to ensure key risk areas receive appropriate attention and will then be reviewed and approved by the Audit Committee. The City Director will be provided with details of the annual plan for information. The audit plan is reviewed quarterly to ensure that it reflects current risks. Any significant changes to the agreed plan will be reported through the periodic activity reporting process.

### Audit and Assurance Reviews

- 8.4 For each audit assignment within the annual audit plan, a terms of reference will be drawn up and shared with the relevant managers. The terms of reference will identify the key risks to the achievement of objectives and identify the scope of the work being carried out.

- 8.5 During the course of the audit, key issues will be brought to the attention of the relevant manager to enable them to take corrective action. On completion of the audit, Internal Auditors will communicate the results of the audit to the relevant Manager.
- 8.6 The completion of each planned assignment will lead to individual reports to Service Directors and Strategic Directors and these will include an opinion on the control framework in place to manage the risks in the area reviewed. These opinions, together with other knowledge of issues identified in other audit work, will assist the Chief Internal Auditor in providing his overall opinion on the control environment to management for the Annual Governance Statement.

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#### Fraud and Irregularity work

- 8.7 Internal Auditors will plan and evaluate their work to have a reasonable chance of detecting fraud however the managing the risk of fraud and corruption is the responsibility of management.
- 8.8 The Anti-Fraud, Bribery and Corruption Policy requires the Chief Internal Auditor is informed of all suspected or detected fraud. A fraud risk assessment will be performed on all suspected/detected fraud which will determine whether the irregularity will be investigated by Internal Audit or by the relevant directorate with support from Internal Audit where required.
- 8.9 Investigation of fraud and corruption will be carried out in compliance with statutory requirements and the fraud investigation protocol, by staff with the necessary skills to do so.
- 8.10 In addition to determining the extent of the fraud, attention will be given to correction of any control failures to prevent recurrence of the fraud.
- 8.11 As well as responding to incidents of fraud and corruption, Internal Audit staff will maintain and deliver a programme of pro-active fraud prevention and detection work including national initiatives to prevent and detect fraud and testing of priority fraud risk areas.
- 8.12 The Chief Internal Auditor has also been nominated as the Council's 'reporting officer' under the Money Laundering Act 2007.

#### Risk Management and Governance work

- 8.13 A programme of work will be undertaken to enhance understanding of effective risk management across the council and embed a culture of appropriate risk taking.
- 8.14 As well as reviews of governance processes included in the risk based plan, Internal Audit will lead on the Annual Governance Review required in across the Council including the preparation of the Annual Governance Statement (AGS).

#### Consultancy reviews as requested/required

- 8.15 Internal Audit provide both statutory and discretionary services. Discretionary services provided by audit are a form of consultancy. These services may be on request by the City Council or recommended by Internal Audit. Each of these reviews will have a clearly defined and agreed Terms of Reference with agreed timescales for completion of the work and agreed reporting format.
- 8.16 In addition to planned audit reviews, Internal Audit will advise on internal control implications of new systems being implemented across the City Council. Internal Audit plan to be involved in change programmes from the outset and consult as required.
- 8.17 The Chief Internal Auditor will ensure that there are no conflicts of interest arise from undertaking any consultancy work.

## External Clients

- 8.18 Internal Audit provides internal audit services to a number of public sector clients including the Avon Fire & Rescue Services and Academies. Further assurance and consultancy work has also arisen from the newly created Trading with Schools function.

## **9. Resources and Skills**

- 9.1 In order to ensure an adequate and effective internal audit service is maintained, Internal Audit must have adequate budgetary resources to maintain organisational independence and be appropriately staffed in terms of numbers and skills. The Chief Internal Auditor is responsible for ensuring that resources and skills in the audit team are in place. Where resources available are felt to be insufficient to deliver the annual audit plan, the s151 Officer and the Audit Committee will be advised of this.
- 9.2 The staffing structure of Internal Audit is divided into three key areas:
- Assurance – dedicated to delivering the planned and unplanned assurance work
  - Fraud and Value for Money – dedicated to both pro-active anti-fraud risk work and responding to fraud and irregularity reported to the Service
  - Risk Governance and Service Development – leading on risk management, the governance agenda including the preparation of the Annual Governance Statement and driving the Internal Audit service development.
- 9.3 Internal Audit staff comprise a mixture of qualified accountants, auditors and fraud investigators as well as a number of trainees. These include general audit skills in respect of reviews of internal control, risk and governance and appropriate specialism in areas such as computer audit, contract audit and investigation of fraud.
- 9.4 Where audits require access to specialist expertise and knowledge that is not available within the audit team, the advice of specialist experts from within the City Council, or occasionally externally, will be sought.
- 9.5 A continuous review of training and development required for all Internal Audit staff will be undertaken as part of the Corporate PMDS framework. These requirements are developed into a Training Strategy with a specific resource for training and development earmarked in the annual audit plan.

## **10. Reporting, Follow Up and Escalation Procedures**

- 10.1 Following the completion of all audit assignments an internal audit report will be issued containing an opinion on the control environment. The report will identify concerns and prioritise recommended improvement actions based on the level of risk resulting from the control weakness. The appropriate Service Manager, Service Director and/or Strategic Director will be asked to respond to the report agreeing, or otherwise, to implement the recommendations and assigning responsibility and time-scales for doing so.
- 10.2 Where the overall level of risk to the Council is significant, and in agreement with management, an early and 'Interim' report will be issued. This will be done in cases where it is felt that recommendations can be implemented quickly and retested by audit as part of the audit work programme to enable a stronger control environment to be achieved in a timely way. The audit opinion will then take into consideration the levels of risk after the early implementation of recommendations if this is confirmed.
- 10.32 Where the overall level of risk to the Council ~~remains is~~ significant ~~or of concern, whether interim reporting was applied or otherwise,~~ the implementation of recommendations will be followed up in line with the follow up and escalation procedure which has been established by the Chief Internal Auditor.
- 10.43 Under the escalation element of this procedure, any significant recommendations which are either not accepted or not implemented may be reported to Senior Management and

the Audit Committee, who may call the appropriate manager to account for failure to correct the control environment.

- 10.54 The Chief Internal Auditor will routinely report to the Audit Committee providing periodic reports and an annual report of Internal Audit activity and details of significant control issues identified by audit work. The annual report provided by the Chief Internal Auditor will include the required opinion on the risk management and control arrangements in place and as such is an essential assurance to management in making their Annual Governance Statement.

## 11. Performance

- 11.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to have a performance management and quality assurance framework in place to demonstrate that the Internal Audit Service;
- meets its aims and objectives
  - meets internal quality standards
  - is effective, efficient and continuously improving
  - is adding value and assisting the organisation in achieving its objectives
- 11.2 Performance, quality and effectiveness of the Internal Audit Service as a whole is measured in a suite of performance indicators which are maintained locally and reported to the Audit Committee. These include qualitative targets concerning auditee feed back in the form of Quality Assurance Questionnaire scores which are issued to auditees following the completion of each audit.
- 11.3 Additionally, a system of close supervision of audit work and review of audit files by Audit Managers is completed to ensure each audit has been completed to standard.
- 11.4 ~~The Accounts and Audit Regulations 2011 require the City Council to complete an annual review of the effectiveness of its system of Internal Audit. This is completed by the Audit Committee and s151 Officer and referred to in the Annual Governance Statement.~~
- 11.45 Internal Audit continually self assesses its performance against the strategy and achievement of its aims and objectives. It also benchmarks key elements of its service. This will include an annual review against the PSIAS.
- 11.56 An external assessment of Internal Audit against PSIAS is required to be undertaken periodically . This will be will be undertaken via through a peer review programme with Core City neighbouring Local Authorities and will provide assurance over the effectiveness of the Council's Internal Audit Function-

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## 12. Collaboration and Liaison with Other Auditors

- 12.1 ~~The City Council's External Audit service is currently provided by Grant Thornton.~~ The External Auditor has a statutory duty to express an opinion on the City Council's financial statements and a Value for Money opinion on its arrangements for securing economy, efficiency and effectiveness. In doing so, there is potential for duplication of work completed by Internal Audit particularly now that International Standards for Auditing (which apply to External Auditors) require a more detailed understanding of systems. Wherever possible, the Chief Internal Auditor will seek to co-ordinate the work of Internal Audit with that of the External Auditor by sharing of plans and monthly liaison meetings. ~~A joint working protocol has been agreed between the External Auditor, the Council and~~

~~Internal Audit to assist with this co-ordination and set out how Internal Audit will assist the External Auditor in their duty to comply with the International Standards for Auditing.~~

### **13 Review of the Internal Audit Charter, Strategy and Terms of Reference**

- 13.1 In accordance with the mandatory requirements of the PSIAS, the Internal Audit Charter, Strategy & Terms of Reference will be reviewed on an annual basis and where appropriate, presented to the Audit Committee for re-approval.

Reviewed: June 2015~~October 2013~~

Approved by Audit Committee ~~November 2013~~June 2015

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