

Audit Committee

Agenda



Date: Monday, 21 November 2022

Time: 2.00 pm

Venue: The Council Chamber - City Hall, College Green, Bristol, BS1 5TR

Distribution:

Councillors: Andrew Brown, Tony Dyer (Vice-Chair), John Geater, Zoe Goodman, Katy Grant, Jonathan Hucker, David Wilcox, Hibaq Jama, Fabian Breckels, Adebola Adebayo and Simon Cookson

Copies to: Simba Muzarurwi (Chief Internal Auditor), Denise Murray (Director - Finance & Section 151 Officer), Nancy Rollason (Head of Legal Service), Glenn Hammons, Husinara Jones, Alison Mullis, Tony Whitlock, Lucy Fleming (Head of Democratic Engagement) and Ravi Lakhani (Head of Strategic Finance)

Issued by: Oliver Harrison, Democratic Services

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Date: Friday, 11 November 2022



Agenda

1. Welcome, Introductions and Safety Information

(Pages 5 - 7)

2. Apologies for absence.

3. Declarations of Interest

To note any declarations of interest from the Councillors. They are asked to indicate the relevant agenda item, the nature of the interest and in particular whether it is a **disclosable pecuniary interest**.

Any declarations of interest made at the meeting which is not on the register of interests should be notified to the Monitoring Officer for inclusion.

4. Minutes of Previous Meeting

To agree the minutes of the previous meeting as a correct record.

(Pages 8 - 13)

5. Action sheet

(Pages 14 - 15)

6. Public Forum

Up to 30 minutes is allowed for this item.

Any member of the public or Councillor may participate in Public Forum. The detailed arrangements for so doing are set out in the Public Information Sheet at the back of this agenda. Public Forum items should be emailed to democratic.services@bristol.gov.uk and please note that the following deadlines will apply in relation to this meeting:-

Questions - Written questions must be received 3 clear working days prior to the meeting. For this meeting, this means that your question(s) must be received in this office at the latest by 5 pm on Tuesday 15 November.

Petitions and Statements - Petitions and statements must be received on the working day prior to the meeting. For this meeting this means that your submission must be received in this office at the latest by 12.00 noon on Friday 18 November.



7. Work Programme

To note the work programme.

(Pages 16 - 17)

8. Value for Money Audit Plan 2021/22

(Pages 18 - 25)

9. Informing the Audit Risk Assessment Report

(Pages 26 - 59)

10. Treasury Management Mid-Year Report

(Pages 60 - 73)

11. Avon Pension Fund

Report to follow.

12. Review of Specific Corporate Risk - Emergency Planning Measures

(Pages 74 - 80)

13. Counter Fraud Half Year Update Report

(Pages 81 - 114)

14. Draft Audit Committee Half Year Report to Full Council

(Pages 115 - 123)

15. Internal Audit Quality Assurance and Improvement Plan, Charter and Strategy

(Pages 124 - 213)

16. Internal Audit Half Year Update

(Pages 214 - 226)

17. Exclusion of Press and Public

That under s.100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business: **16.3 Appendix 2 – Internal Audit Summary Report – Cloud Review** on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 (respectively) of Part 1 of schedule 12A of the Act: Information relating to the financial or business affairs of any particular person (including the authority holding that information).





Public Information Sheet

Inspection of Papers - Local Government (Access to Information) Act 1985

You can find papers for all our meetings on our website at www.bristol.gov.uk.

Public meetings

Public meetings including Cabinet, Full Council, regulatory meetings (where planning and licensing decisions are made) and scrutiny will now be held at City Hall.

Members of the press and public who plan to attend City Hall are advised that you may be asked to watch the meeting on a screen in another room should the numbers attending exceed the maximum occupancy of the meeting venue.

COVID-19 Prevention Measures at City Hall (June 2022)

When attending a meeting at City Hall, the following COVID-19 prevention guidance is advised:

- promotion of good hand hygiene: washing and disinfecting hands frequently
- while face coverings are no longer mandatory, we will continue to recommend their use in venues and workplaces with limited ventilation or large groups of people.
- although legal restrictions have been removed, we should continue to be mindful of others as we navigate this next phase of the pandemic.

COVID-19 Safety Measures for Attendance at Council Meetings (June 2022)

We request that no one attends a Council Meeting if they:

- are required to self-isolate from another country
- are suffering from symptoms of COVID-19 or
- have tested positive for COVID-19

Other formats and languages and assistance for those with hearing impairment

You can get committee papers in other formats (e.g. large print, audio tape, braille etc) or in community languages by contacting the Democratic Services Officer. Please give as much notice as possible. We cannot guarantee re-formatting or translation of papers before the date of a particular meeting.

Committee rooms are fitted with induction loops to assist people with hearing impairment. If you require any assistance with this please speak to the Democratic Services Officer.



Public Forum

Members of the public may make a written statement ask a question or present a petition to most meetings. Your statement or question will be sent to the Committee Members and will be published on the Council's website before the meeting. Please send it to democratic.services@bristol.gov.uk.

The following requirements apply:

- The statement is received no later than **12.00 noon on the working day before the meeting** and is about a matter which is the responsibility of the committee concerned.
- The question is received no later than **5pm three clear working days before the meeting**.

Any statement submitted should be no longer than one side of A4 paper. If the statement is longer than this, then for reasons of cost, it may be that only the first sheet will be copied and made available at the meeting. For copyright reasons, we are unable to reproduce or publish newspaper or magazine articles that may be attached to statements.

By participating in public forum business, we will assume that you have consented to your name and the details of your submission being recorded and circulated to the Committee and published within the minutes. Your statement or question will also be made available to the public via publication on the Council's website and may be provided upon request in response to Freedom of Information Act requests in the future.

We will try to remove personal and identifiable information. However, because of time constraints we cannot guarantee this, and you may therefore wish to consider if your statement contains information that you would prefer not to be in the public domain. Other committee papers may be placed on the council's website and information within them may be searchable on the internet.

During the meeting:

- Public Forum is normally one of the first items on the agenda, although statements and petitions that relate to specific items on the agenda may be taken just before the item concerned.
- There will be no debate on statements or petitions.
- The Chair will call each submission in turn. When you are invited to speak, please make sure that your presentation focuses on the key issues that you would like Members to consider. This will have the greatest impact.
- Your time allocation may have to be strictly limited if there are a lot of submissions. **This may be as short as one minute.**
- If there are a large number of submissions on one matter a representative may be requested to speak on the groups behalf.
- If you do not attend or speak at the meeting at which your public forum submission is being taken your statement will be noted by Members.
- Under our security arrangements, please note that members of the public (and bags) may be searched. This may apply in the interests of helping to ensure a safe meeting environment for all attending.



- As part of the drive to reduce single-use plastics in council-owned buildings, please bring your own water bottle in order to fill up from the water dispenser.

For further information about procedure rules please refer to our Constitution
<https://www.bristol.gov.uk/how-council-decisions-are-made/constitution>

Webcasting/ Recording of meetings

Members of the public attending meetings or taking part in Public forum are advised that all Full Council and Cabinet meetings and some other committee meetings are now filmed for live or subsequent broadcast via the council's [webcasting pages](#). The whole of the meeting is filmed (except where there are confidential or exempt items). If you ask a question or make a representation, then you are likely to be filmed and will be deemed to have given your consent to this. If you do not wish to be filmed you need to make yourself known to the webcasting staff. However, the Openness of Local Government Bodies Regulations 2014 now means that persons attending meetings may take photographs, film and audio record the proceedings and report on the meeting (Oral commentary is not permitted during the meeting as it would be disruptive). Members of the public should therefore be aware that they may be filmed by others attending and that is not within the council's control.

The privacy notice for Democratic Services can be viewed at www.bristol.gov.uk/about-our-website/privacy-and-processing-notices-for-resource-services



Bristol City Council Minutes of the Audit Committee

26 September 2022 at 2.00 pm



Members Present:-

Councillors: Andrew Brown, Tony Dyer (Vice-Chair), John Geater, Jonathan Hucker, David Wilcox, Adebola Adebayo and Simon Cookson

Officers in Attendance:-

Tim O’Gara (Director Legal and Democratic Services, (Simba Muzarurwi (Chief Internal Auditor), Glenn Hammons (Head of Corporate Finance), Alison Mullis (Head of Internal Audit) and Ravi Lakhani (Head of Strategic Finance)

1 Welcome, Introductions and Safety Information

The Chair welcomed everyone to the meeting and issued the safety information.

2 Apologies for absence.

Apologies were received from Councillor Katy Grant, Councillor Emma Edwards substitutes.

3 Declarations of Interest

None received.

4 Minutes of Previous Meeting

The minutes of the previous meeting held on 26 July 2022 were agreed as a correct record.

5 Action sheet

Action 7 (Internal Audit Exception Reporting) was completed but no exception reports were considered during the private member briefing. The exception report would be considered later in this meeting.

6 Public Forum



The following Public Forum was received for this meeting:

PS01 Councillor Geoff Gollop: External Audit Plan

- Officers stated that the external auditors will look at these items as part of their ongoing Value for Money work. This will form part of 2021/22 overview for next financial year. The external auditor will check that VFM actions have been taken forward properly.
- A member spoke regarding the capital programme, that earlier answers indicated this was due to BCC trying to complete capital projects before the end of the financial year. It is possible that the actual capital spend is under reported as accruals accounting was not applied.

7 Work Programme

RESOLVED the Work Programme was NOTED.

8 External Audit Plan

The External Auditor introduced the report and summarised it for the Committee.

- The statutory deadline for the accounts this year is end November 2022. The next Audit Committee will be after the publication deadline.
- The infrastructure financials cannot be signed off until the end of November. The EA is waiting on a statutory override. It is worth noting that the timeline for sign off is improving every year. Bristol is a large and complex council, and auditing puts significant work pressure on the finance team alongside business as usual.
- The pdf report is still not searchable or editable.

ACTION: External Auditor to make searchable pdfs.

- A property cannot be both an infrastructure asset and investment property.

ACTION: DM supply Committee Members with lists of infrastructure assets and investment properties.

- The Financial Reporting Council report has been supplied to the Committee Chair but is not for publication.

ACTION: Chair to circulate report to Committee Members.

- The boundaries for material consideration are increasing. The EA materiality is based on BCC's gross expenditure as the key accounting figure. This remains proportionate even if costs increase. Materiality boundaries also gradually increased as the EA learns more about the organisation.
- On p.15 of the EA report, it reads "as of the time of drafting this report, we have received management's responses which will be presented to Corporate Audit Committee." This should read "we have NOT received management's responses."
- In a group audit the risk level of the BCC companies is insignificant. BCC represents 99% of the finances, companies are very low material consideration. The EA relies on the companies' respective auditors and reviews their reports to assess accuracy.



RESOLVED the report was NOTED.

9 Treasury Management Annual Report 2021/22

The Head of Strategic Finance introduced the report and summarised it for the Committee.

- On average interest rates, historical borrowing was at a time when interest was higher. Rates are better now, however there are penalties for re-borrowing that make it a worse option than keeping the old rate.
- There is total borrowing of £451m net borrowing of £214m and substantial surplus cash on deposit. Members sought assurance this was being managed properly. Officers stated this was monitored daily within the finance team with appropriate escalation processes.
- A member asked for more detail on the £24m owed by subsidiaries to BCC. At one point BCC waived £6.5m from Bristol Holding but it is not referred to here. Also, the Capital Budget dropped from £321m to £158m over 2021/22. What were the main projects impacted and why the slippage?
- Finance Officers stated that a lot of that information was already in the accounts and monitoring reports, especially regarding the subsidiaries. Annual statements show the totality of investments from cabinet.

ACTION DM circulate details explaining the Capital Expenditure slippage to Committee members.

- The treasury management team has link services with information from 3 major credit agencies.
- Gross borrowing versus Capital Finance Requirement. Borrowing has gone from 60% to 50% so the authority could theoretically increase borrowing within reason.
- The Bristol Port Company at £3m has a fluctuating valuation and has been noted as a risk. The External Auditors consider it a risk as the company is not listed and cannot be traded or viewed on an exchange. This makes assessing value at a given point difficult.

RESOLVED the report was NOTED.

1 Risk Management Annual Report 2021/22

0

The Director of Finance introduced the report and summarised it for the Committee.

- The recommendation states 2021/22 period, but this should be 2022/23.

RESOLVED the report was NOTED.

1 Q2 Corporate Risk Report

1



The Director of Finance introduced the report and summarised it for the Committee.

- This was a late report for Audit Committee as it was being published today for Cabinet.
- In the earlier Q1 report there was a helpful matrix that showed RAG ratings on individual risks across the council. Members would also like to see the tolerances detail for risks.

ACTION DM to circulate overall risk matrix and tolerance details to members.

- CR46 high risk on properties is due to the difficulty of insurance tenders. The market is difficult for property insurance at the moment, appetite for risk is low. The property portfolio includes high rise blocks, which are high risk and hard to insure.
- Members would be grateful for more deep dives into certain risks. It was agreed at the recent member briefing that members can request a deep dive via the Chair once risk reports have been published. Officers will then request the relevant risk manager attend committee to answer questions.
- Members also requested to look at risks that were related to the major council policy themes, e.g. cost of living. Members were invited to contact the Chair regarding this.

RESOLVED the report was NOTED.

1 Annual Report of Local Government and Social Care Ombudsman

2

The Head of Information Assurance introduced the report and summarised it for the committee.

- Members requested that the data be presented in the old word format for ease of viewing.
- Trend data only has this year and the previous year, a longer period is required to identify trends.

ACTION BH expand trends to a 5-year period if possible and return to Word formatting.

- Figures may have lowered during the pandemic but should be stable from now on.

RESOLVED the report was NOTED.

1 Internal Audit Activity Report

3

The Chief Internal Auditor introduced the report and summarised it for the Committee.

- It was observed that IT has had limited assurance opinions for a while, however this should be considered in the context of BCC. With increased audit expertise through collaboration with a strategic partner the scope of IT assurance work has widened resulting in more complex areas being reviewed.
- IT frequently has systems supplied by third parties and must rely on those parties for assurance, but BCC IT is now far better at monitoring this.



- A member gave a statement about their concerns on IT limited assurance, compliance with strategy and making the best of opportunities available. There was a request for the relevant director to attend the Committee within the next 3 months.

ACTION DW share statement with SM so that he can arrange an update from the IT Director for the Committee.

- There was a discussion on the timeline for agreed management actions. The original December 2022 deadline had been extended into March 2023 for practical reasons. Audit will monitor individual actions and review the area again as part next year's plan. The outcomes from this review will be reported to the Committee consistent with the reporting cycle.

RESOLVED the report was NOTED.

1 Audit Committee Annual Report to Full Council

4

The Deputy Chief Internal Auditor introduced the report and summarised it for the Committee.

- The Annual Report was drafted by Audit Officers on behalf of Audit Committee and will be submitted to the November Full Council meeting.
- The section on external audit signoff for financial statements states that Committee was concerned about the time taken to signoff. Please include a note that Committee requested that the BCC website was updated to explain why the accounts were late.
- Members considered the annual report to be a fair reflection of the year and shows how much work the Committee gets through.
- This report will go to Full Council at the same time as the External Auditor's report, however the Committee will not see the External Auditor report beforehand.
- Section 2.1. states that the Terms of Reference are on the BCC website, however these are in the Annual General Meeting reports pack so are not easily accessible.

ACTION: Democratic Services to add the ToR to the Audit Committee information section of the BCC website.

RESOLVED The Committee Members considered and APPROVED the Audit Committee's Draft Annual Report to Council for 2021/22.

Meeting ended at 4.30 pm

CHAIR _____





Audit Committee Action Sheet – actions from meeting held on 26 September 2022

Action number	Item/report	Action	Responsible officer(s)	Action taken / progress
1	8 – External Audit Plan	External Auditor to ensure that future pdfs are searchable.	Beth Garland (GT)	Emailed external auditor 26 Oct
2	8 – External Audit Plan	DM supply Committee Members with lists of infrastructure assets and investment properties.	Denise Murray	Report circulated to members 26 October
3	8 – External Audit Plan	Chair to circulate Financial Reporting Council report to Committee Members.	Cllr Brown	Completed 26 Sep
4	9 - Treasury Management Annual Report 2021/22	DM circulate details explaining the Capital Expenditure slippage to Committee members.	Denise Murray	Report circulated to members 26 October
5	11 - Q2 Corporate Risk Report	DM to circulate overall risk matrix and tolerance details to members.	Denise Murray	Risk matrix circulated 26 October
6	12 - Annual Report of Local Government and Social Care Ombudsman	BH expand trends to a 5-year period if possible and return to Word formatting.	Ben Hewkin	Report circulated to members 26 October
7	13 - Internal Audit Activity Report	DW share statement with SM so that he can arrange an update from the IT Director for the Committee.	Cllr Wilcox / Simba Muzarurwi	Statement sent to SM 26 Sep
8	14 - Audit Committee Annual Report to Full Council	Democratic Services to add the ToR to the Audit Committee information section of the BCC website.	Oliver Harrison	Terms of Reference added to the website 26 October

AUDIT COMMITTEE
WORK PROGRAMME 2022/23

Meeting Date	Assurance Source	Report Details	Routine Work Programme/ Other?	ToR Ref	Officer Providing Report
June 2022 3:00PM	External Audit	External Audit Report	Routine	1.8/1.9	External Audit Lead
	Internal Audit	Internal Audit Annual Report 21/22	Routine	1.4	Chief Internal Auditor
		Annual Fraud Report 2021/22	Routine	2.4/2.10	Chief Internal Auditor
		Draft Annual Governance Statement 2021/22	Routine	2.5/4.4	Chief Internal Auditor
	Risk & Insurance	Corporate Risk Report (Q4)	Routine	4.1/4.3	Risk & Insurance Manager
Jul-22 3:30pm	Finance	Draft Statement of Accounts 2021/22	Routine	3.1/2.5	Director of Finance
		External Audit Fees report	Routine	1.8/1.9	Director of Finance
	Internal Audit	Internal Audit Exception Reporting including Management Action Tracking	Routine	1.5/1.6/1.7	Chief Internal Auditor
		External Review of BCC Internal Audit Service	Routine	1.5/1.6/1.7	Chief Internal Auditor
	Other	Q1 - Strategic Risk Report Bristol Holding - Audit and Risk Committee Assurance	Routine	4.1/4.3	Risk and Insurance Manager.
Sep-22 2:00 PM	External Audit:	External Audit Draft Plan	Routine	1.8/1.9	External Audit Lead
	Finance:	Treasury Management - Annual Report 2021/22	Routine	3.3	Director of Finance
	Internal Audit	Audit Committee Annual Report to Full Council (Draft)	Routine	5.1	Chief Internal Auditor
		Internal Audit Activity Report	Routine	1.5/1.6/1.7	Chief Internal Auditor
	Risk Management:	Risk Management Annual Report 2021/22	Routine	4.1/4.3	Risk and Insurance Manager.
		Corporate Risk Report (Q2)	Routine	4.1/4.3	Risk & Insurance Manager
	Customer Relations	Annual Report of Local Government and Social Care Ombudsman Decisions	Routine	1.12	Customer Relations Manager
November 2022 2:00 PM	External Audit:	Value For Money Audit Plan 2021/22	Routine	1.8/1.9/3.2	External Audit Lead
		Informing the Audit Risk Assessment Report	Routine	1.8/1.9/3.2	External Audit Lead
	Finance:	Treasury Management Mid-Year Report	Routine	3.3	Director - Finance
	Internal Audit:	Internal Audit Half Year Update	Routine	1.5/1.6/1.7	Chief Internal Auditor
		Counter Fraud Half Year Update Report	Routine	2.4./2.10	Chief Internal Auditor
		Audit Committee Half Year Report to Full Council (Draft)	Routine	5.1	Chief Internal Auditor
		Internal Audit Quality Assurance and Improvement Plan, Charter and Strategy	Routine	1.1/1.6	Chief Internal Auditor

Meeting Date	Assurance Source	Report Details	Routine Work Programme/ Other?	ToR Ref	Officer Providing Report
	Other	Avon Pension Fund Review of Specific Corporate Risk - Emergency Planning Measures	Ad hoc Routine	4.3 4.1/4.3	Director of Finance City Operational Planning and Response Manager
January 2023 2:00 PM	External Audit:	Audit Findings Report for 2020/21 Final Auditors Annual report for 2020/21	Routine Routine	1.8/1.9/3.2 1.8/1.9/3.2	External Audit Lead External Audit Lead
	Internal Audit:	Internal Audit Update Report	Routine	1.5/1.6/1.7	Chief Internal Auditor
	Other	SIRO Assurance Report ICT Assurance Report	Routine Ad hoc	4.1/4.3 4.1/4.3	Senior Information Risk Owner Director: Policy Stratgy and Digital
	Risk Management:	Corporate Risk Report (Q3) Review of Specific Corporate Risk (Risks to be confirmed)	Routine Routine	4.1/4.3 4.1/4.3	Risk and Insurance Manager Risk Manager / Risk Owner
Mar-23 3:00 PM	External Audit:	Audit Findings Report for 2021/22	Routine	1.8/1.9/3.2	External Audit Lead
	Internal Audit:	Draft Internal Audit Annual Plan	Routine	1.2	Chief Internal Auditor
		Annual Whistleblowing Review	Routine	2.4	Chief Internal Auditor
		Internal Audit External Standards Assessment - Results	One off	1.5/1.6/1.7	Chief Internal Auditor
	Legal:	Code of Corporate Governance	Routine	2.6	Director: Legal& Democratic Services
	Corporate:	AGS 2020/21 - Actions Tracking Update	Routine	2.5/4.4/1.7	Director: Finance
		External Inspections Update	Routine	4.4	Head of Executive Office

Bristol City Council Value for Money

Year ending 31 March 2021

November 2021

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Agenda Item 8



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Value for Money arrangements

Revised approach to Value for Money work from 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money (VFM).

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified/unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out here:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

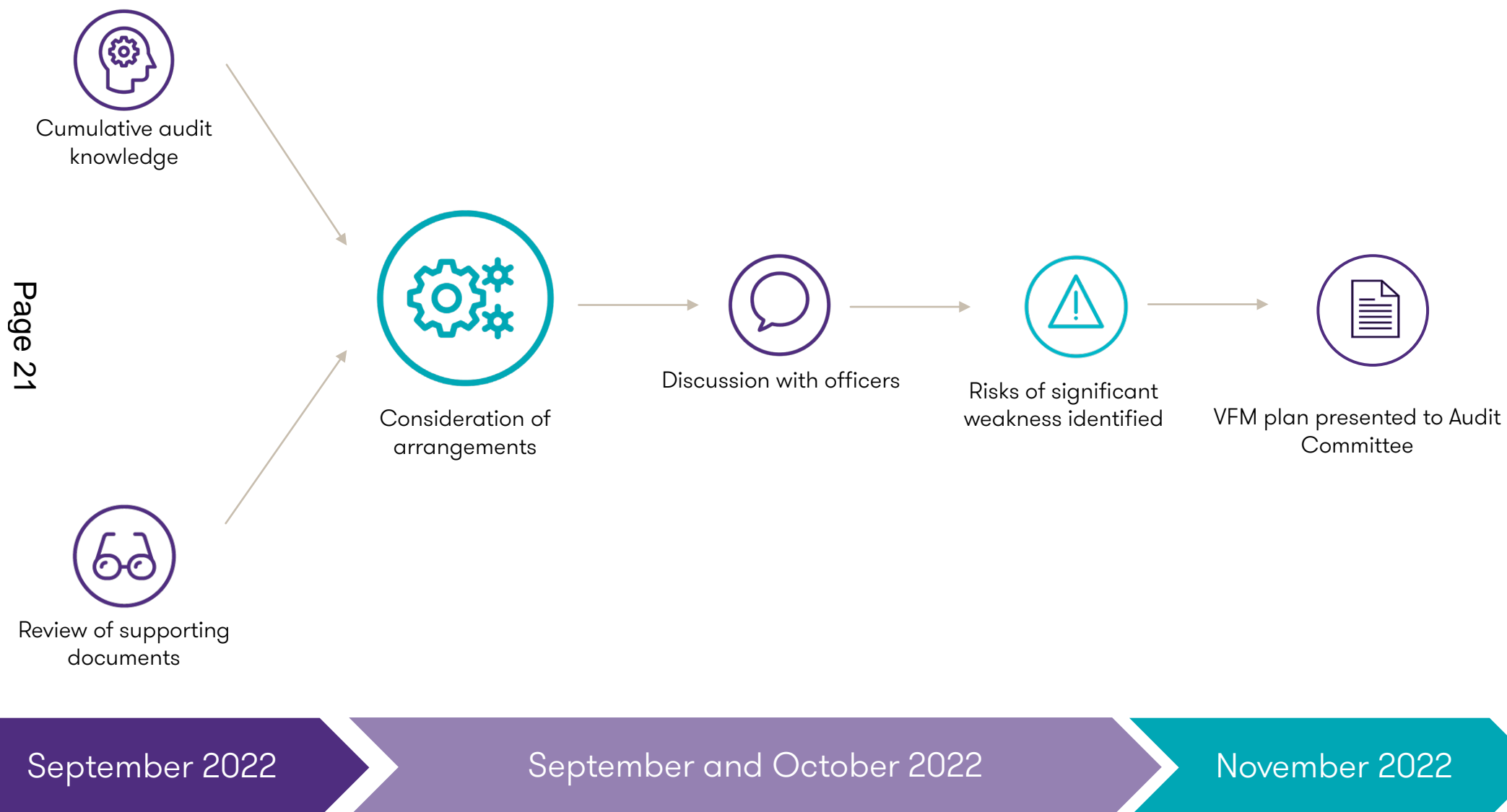


Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.



Initial planning



Approach

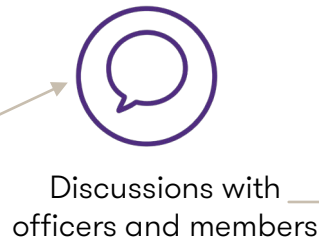
Review to enable
commentary on overall
arrangements

We will discuss the option
of combining 2021-22 and
2022-23 VFM Work

Risk based procedures
focused on identified risks
of significant weakness

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Risks of significant
weaknesses reported to audit
committee



No concerns
identified



Work kept under
review until
Auditor's Annual
Report is issued



Risk based
procedures
undertaken



Additional risks of
significant
weakness identified



Auditor's Annual
Report

November 2022

January 2023

January 2023

February
2023

March
2023

Risks of significant VFM weakness

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The identified risks of significant weakness will be considered as well as follow-up of our findings from the previous year's Auditor's Annual Report.



Setting and managing capital budgets

The annual capital budgets did not reflect actual spend in 2020/21 leading to an improvement recommendation in the Auditor's Annual Report. In 2021/22, the economic climate has led to significant fluctuations in the cost of construction. As a result the Council is reviewing all projects for feasibility. As a result of these factors, there is a risk that the Council's is unable to effectively manage its capital budgets.

Capital budgets

We will review the arrangements for:

- setting and agreeing the capital budgets
- profiling the budgets within year and across a number of years
- monitoring progress against budget
- amending the budgets in-year
- managing the risks associated with the Bristol Beacon, a large complex project.
- reviewing and amending the medium term capital plan in light of the economic climate
- any changes made since the improvement recommendation relating to the Bristol Beacon was issued



The Council's arrangements for securing financial sustainability into the medium term

The Council set a balanced budget for 2021/22, but the longer term picture looks more challenging with a £37.535m gap identified over the Medium Term Financial Plan period to 2027/28. There is a risk that medium term financial plans are not sufficiently developed to close the funding gap, which in turn could impact on the council's ability to deliver services. Due to the inherent uncertainty we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.

We will review the arrangements for:

- the Council's arrangements for identifying and monitoring risks to financial delivery
- the robustness of the council's medium term financial strategy and savings plans.

Risks of significant weakness



Governance arrangements, how the Council ensures it makes informed decisions for its companies and for key decisions relating to high profile transactions

We will review the arrangements to ensure informed decision making for the following:

- the governance arrangements over changes to the Council's Group structure
- procurement processes

Our review will include:

- we will review the governance plans for the formation of new company structures, or amendments to existing structures, and consider whether proposals are in line with public sector laws and regulations

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The current level of spend on Adult Social Care is unsustainable

Value for Money work in 2020/21 identified that Bristol City has one of the highest Adult social care costs for Authorities of a comparable size. There is a risk that with the costs remaining as they are the spend will be unsustainable and will contribute to further financial pressures on the Council's medium Term finances.

We will review the arrangements for:

- the Council's social care transformation programme
- plans to tackle the historic cost pressures
- monitoring spend against budget
- amending the budgets in-year
- reviewing and amending the medium term financial plan in light of the economic climate

At any stage of our new approach to VfM additional risks of significant weakness may be identified, these will be reported to you as they are identified.



Informing the audit risk assessment for Bristol City Council 2021/22

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Jon Roberts
Partner
T 0117 305 7699
jon.roberts@uk.gt.com

Agenda Item 9

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Bristol City Council's external auditors and Bristol City Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards. This assessment should include any issues relevant to the group entities.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee . ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures, we are required to obtain an understanding of management processes and the local authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Bristol City Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	<p>Continued uncertainty in relation to local government finance and the ongoing impact of COVID-19 on the Council and its finances.</p> <p>The key issues are disclosed in note 3, 4 and 6 in the accounts.</p>
2. Have you considered the appropriateness of the accounting policies adopted by Bristol City Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	<p>Yes – the accounting policies was reviewed and approved by the Audit Committee on 8 March 2022.</p> <p>Due to its materiality, a policy for Inventories (Stock) has been included in the 2021/22 accounts.</p> <p>There are no other material changes proposed to the accounting policies for the 2021/22 accounts.</p>
3. Is there any use of financial instruments, including derivatives? If so, please explain	<p>The Council have financial instruments as disclosed in note 24 (2020/21 accounts), with no significant changes in 2021/22. The Council do not hold any derivatives apart from those embedded within the Council's LOBO's.</p>
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	<p>1. Covid -19 related expenditure and income including grant income, as disclosed in note 6 in the accounts.</p> <p>2. Losses in the collection fund due to business rates relief offset by General Fund reserves (S31 grant to compensate to losses in the collection fund).</p> <p>3. Gorman homes –during the year, the Council approved Gorman Homes joint venture plans for 268 new homes at Romney House, Lockleaze. The site was transferred during 2021/22 to Gorman Homes joint venture in return for £12.9m of repayable loan notes.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No
6. Are you aware of any guarantee contracts? If so, please provide further details	Pensions only.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	None other than those disclosed in the accounts
8. Other than in house solicitors, can you provide details of those solicitors utilised by Bristol City Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Ashford's LLP</p> <p>Burges Salmon LLP</p> <p>Bevan Brittan – One litigation matter</p> <p>DWF Law LLP – litigation</p> <p>Freeths LLP– litigation</p> <p>Keoghs LLP – litigation</p> <p>Osborne Clark LLP</p> <p>TLT LLP</p> <p>Trowers and Hamblins LLP</p> <p>Warwickshire County Council (registered as an ABS with the SRA as Warwickshire Legal Services Ltd) - Child Protection/Family Court and Court of Protection cases</p> <p>Womble Bond Dickinson UK LLP</p>

General Enquiries of Management

Question	Management response
9. Have any of the Bristol City Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council uses external advisors from time to time to advise on various aspects of its operations. These are all part of normal business operations. Link Asset Services – Treasury Management and CBRE for property valuations are the only ones relevant to the Statement of Accounts.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Yes – disclosed in note 25 Nature and Extent of Risks Arising from Financial Instruments.

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Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Bristol City Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures, we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Bristol City Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Bristol City Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the local authority's risk management processes link to financial reporting?</p>	<p>Internal audit provides assurance regarding the adequacy and effectiveness of internal controls and where these are not considered robust, the S151 Officer is informed to enable this assessment to be made. Fraud updates, routinely provided to senior management (including s151 Officer) and Audit Committee include details of fraud risks.</p> <p>Fraud is recognised as a corporate risk and the councils response to this risk regularly updated and reported to senior management, members and the Audit Committee. In addition, where Internal Audit report areas of weakness, management agree actions that will improve controls.</p> <p>Regular bank and control account reconciliations overseen by Corporate Finance.</p> <p>Information from the Council's risk management process includes financial 'flags' that are used in financial planning and reporting processes to identify financial pressures and issues.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>High fraud risk areas: Covid Business Grants, Procurement, Social Care/Direct Payments, Tenancy, Council Tax Single Persons Discount, mandate fraud.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Bristol City Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>Internal fraud cases investigated and outcomes are detailed in the Annual Fraud Report 2021/22. The report includes details of all suspected, alleged and actual fraud experienced by the Council in 2021/22. Appendix 1 provides details of internal investigations. Appendix 2 provide details of whistleblowing allegations, some of which refer to alleged fraud. The Annual fraud report also details other areas of fraud. 239 referrals of tenancy fraud were received from which 31 council property regains or other positive outcomes (Housing or RTB application cancelled) were achieved. One case was successfully prosecuted. Single Persons Discounts were also removed using NFI matching data and work continued to check covid related grant payments to prevent fraudulent payments being made.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Annual and Half Yearly fraud reports are produced which go to Corporate Leadership Board and Audit Committee. Update reports are provided in Internal Audit update reports which are at least quarterly.</p> <p>The Corporate Risk report which includes fraud risk is prepared quarterly for review by Senior Management, Cabinet, Scrutiny, Audit Committee.</p> <p>Intelligence and fraud alerts are directed to relevant service managers.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Bristol City Council where fraud is more likely to occur?</p>	<p>Social Housing, Local taxation (single persons discounts), Procurement, Social care payments, Cyber crime Covid grants (less so now but some schemes remained in place during 2021/22), Mandate Fraud.</p>

Fraud risk assessment

Question	Management response
<p>6. What processes do Bristol City Council have in place to identify and respond to risks of fraud?</p>	<p>Fraud is recognised as a corporate risk and the Council's response to it is regularly reviewed and reported to senior management, members and the Audit Committee. The Corporate Risk Report includes item CRR06 relating to management of fraud risks.</p> <p>Code of Conduct for employees and members set out the standards of conduct expected from them. Fraud reporting form and hotline is in place. Whistleblowing reporting form and hotline for employees to raise concerns. Fraud awareness e learning is provided and is mandatory.</p> <p>Anti Fraud and Corruption Policy, Whistleblowing procedure and money laundering procedures are in place to set out the approaches.</p> <p>Fraud Risk registers have been developed in key fraud risk areas but require updating. A Fraud Risk register has been developed for each of the Council's subsidiary companies.</p> <p>Counter fraud and investigations team undertake a risk based plan of proactive fraud work to prevent and detect fraud including ad hoc data matching, fraud prevention reviews, targeted training and publicity campaigns and participation in the National Fraud Initiative exercise. The team also have trained investigators to investigate referrals.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Bristol City Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Internal Audit undertake a risk based work programme to inform their opinion on the existence and effectiveness of control. The planning process includes consideration of all risks including fraud risks in consultation with the counter-fraud team, management across the Council and with reference to external expertise (Eg Institute of Internal Auditors – risk in focus).The Chief Internal Auditors Annual Report for 2021/22 concluded reasonable assurance can be provided that governance, risk management and internal control arrangements were in place and operating effectively. The following areas were identified as requiring improvement:</p> <p>Information technology, compliance with procurement rules, risk management, housing management systems and processes, management of conflicts of interest, direct payments, SEND, delivery of financial savings. Improvement actions have been agreed in all areas where Internal Audit have concluded limited assurance and these actions are tracked with periodic reporting to senior management and Audit Committee.</p> <p>As well as those referred to in question 5, other examples include procurement regulations/rules/Financial Regulations, controls over bank mandate changes, Separation of duties in Accounts Payable process.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>See Q7 above</p>

Fraud risk assessment

Question	Management response
<p>9. How does Bristol City Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>Code of Conduct requires declarations of interest to be completed and gifts and hospitality to be declared and recorded. Assurances included in the Annual Governance Review process seek assurance that staff are aware of this and comply. Our values and behaviours and considered as part of performance management process. Targeted training in management of conflicts of interest is currently under way.</p> <p>Raising awareness of Whistleblowing process. Numbers of reported cases has increased which may indicate increased awareness. Raising awareness of fraud through mandatory e learning module and targeted fraud training.</p> <p>Any concerns about fraud. Reporting form and E learning module provide examples of what might constitute fraud.</p> <p>Refer to Question 3 above</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>All employees are required to complete a declaration of interest form on appointment. Posts of grade BG14 and above and sensitive posts (those that relate to working in a caring capacity) are required to do declarations every 2 years.</p>

Fraud risk assessment

Question	Management response
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>Council Members complete an annual declaration stating whether they, or a close relation, have connections with a BCC related party. Where this is material it is quoted in the accounts. Transactions with related parties are subject to the same controls as any other within the Council.</p>
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Fraud updates are provided to the Audit Committee twice yearly in Annual and half yearly fraud reports. These include updates on whistleblowing referrals. Additionally, as necessary, internal audit activity reports will include fraud matters in the intervening periods.</p> <p>The Audit Committee consider the reports mentioned above and also oversees update and amendment of the Councils fraud policy. They approve the Internal Audit Plan which includes the counter fraud programme.</p> <p>Publicity to promote fraud awareness following the Committees consideration fraud reports. The Committee have continued to take a keen interest in whistleblowing to support improvements in this area.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>As detailed above (Q3), the Annual Fraud Report details all whistleblowing cases and the outcomes. Appendix 2 of the report details.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>1 case of possible bribery was reported. The allegations were unsubstantiated.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Bristol City Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures, we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance, we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Bristol City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the local authority's regulatory environment that may have a significant impact on the local authority's financial statements?</p>	<p>Regular file reviews and 1:1s. Ensuring team attend ongoing training in their specialist areas. Discussion of changes to the law and circulating relevant articles and training materials, high risk case register that is regularly updated by Managers and reviewed by Head of Service and Director.</p> <p>We are not aware of any changes to the LAs regulatory environment that may have any significant impact on the LAs financial statements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Audit Committee receives regular reports from the Chief Internal Auditor which will cover such matters in the areas audited.</p> <p>The Annual Governance Statement is received by the Audit Committee which include assurance from the monitoring officer in this regard.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>No</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Bristol City Council have in place to identify, evaluate and account for litigation or claims?	The Council has an insurance team and a Legal team that manages litigation and claims on behalf of the Council. All claims are passed to these teams. At the end of the year the Corporate Finance team will liaise with the insurance and legal teams to evaluate any material claims and make the appropriate accounting entries in the accounts.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	There have been no reports from other regulatory bodies.

Related Parties

Matters in relation to Related Parties

Bristol City Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Bristol City Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the local authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the local authority, or of any body that is a related party of the local authority.

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A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the local authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Bristol City Council's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Bristol City Council whether Bristol City Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>During the year, the Council approved Goram Homes joint venture plans for 268 new homes at Romney House, Lockleaze. The site was transferred during 2021/22 to Goram Homes joint venture in return for £12.9m of repayable loan notes. 147 homes (55%) will be affordable and managed by Bristol City Council.</p> <p>No other changes</p>
<p>2. What controls does Bristol City Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The Council carries out an early review of related party transactions and relationships. Members are asked to complete an annual return requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests. These are checked where appropriate with the Council's legal team (Register of Members Interests) and Companies House. Business Partners are asked to confirm any changes or additions. Related party transactions with Council owned companies are reconciled and agreed with the relevant counter-party. Company audited accounts are checked to verify transactions and balances.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Transactions with related parties are subject to the same controls and arrangements as those with any other organisation the Council contracts with for business purposes, so through the Contract procedure rules, the Employee Code of Conduct, and Register of Interest. There is a Scheme of Delegation in place which applies equally to both related and non related parties.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>As above, and with the appropriate reporting and approval.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Bristol City Council will no longer continue?	A going concern assessment is carried out at the end of each year by management to consider the factors that could impact the continuation of its statutory services. These factors are 1) Financial Performance Framework 2) Medium Term Financial Plan (MTFP) and budget for future years 3) Governance Arrangements 4) Group Accounts and other matters that could impact the council from carrying out its functions. Management opinion is then given to conclude the assessment.
2. Are management aware of any factors which may mean for Bristol City Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No
3. With regard to the statutory services currently provided by Bristol City Council, does Bristol City Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Bristol City Council to cease to exist?	The services are expected to continue to deliver for the foreseeable future.
4. Are management satisfied that the financial reporting framework permits Bristol City Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes to both questions.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	<p>The on-going impact of COVID-19 and it's effect on property and investment valuations and group accounts.</p> <p>See disclosure note 3, 4 and 6 in the statements of accounts.</p>
2. How does the local authority's risk management process identify and address risks relating to accounting estimates?	<p>Accounting estimates are reviewed annually to ensure they are appropriate, reasonable and evidenced.. This might be by the use of appropriate qualified experts, such as Property Valuers and Actuary, with review performed by internal qualified officers at the Council. Within the Council – qualified accountants and technicians review the estimates and evidence to ensure on-going compliance with the appropriate accounting standards and guidance.</p>
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>Assumptions are reviewed annually, taking into account relevant conditions in place at the time. The Council has in-house, qualified professionals, to provide advice as well as external advisors for Treasury Management, property valuations and pensions (for example).</p>
4. How do management review the outcomes of previous accounting estimates?	<p>Previous accounting estimates are reviewed annually against actual performance. These are then adjusted accordingly in light of any new data.</p>
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	<p>No</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	In most areas expertise and knowledge is held internally within the various teams. For other more specialist areas, such as the IAS19 (Pension Liability) estimates and certain property valuations, appropriately qualified external experts are used to provide estimates. The work of external specialists is managed by appropriate internal staff.
7. How does the local authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	See Q2 above
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	See Q2 above
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	Through regular budget monitoring reports and year end outturn reports to the Cabinet. Statement of Accounts reported to the Audit Committee.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>Audit Committee are provided with a draft Statement of Accounts for scrutiny and comment prior to publication on the Council's website. Members are also provided with training where such things as accounting policies, critical judgements and estimations and uncertainties are highlights. Where significant estimates are used, such as in the pension fund, members are talked through these and invited to make comment.</p> <p>Members of the Audit Committee get to review and consider the accounting policies. Any significant changes during the closedown and/or audit will be highlighted to the committee in the Statement of Accounts report later in the year. The accounting policies for 2021/22 were approved by the Audit Committee in March 2022.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations Page 52	In accordance with RICS and CIPFA (IFRS) proper practice	All valuations are checked / verified to determine that appropriate metrics have been obtained and applied accurately	The Council have a portfolio of RICS qualified property officers with a wealth of experience including knowledge and experience of the Bristol market through managing its own significant portfolio of assets. In addition CBRE have been appointed to value investment Properties and complex operational assets.	<p>Market comparable evidence. Assets are valued as a minimum over a 5 yearly cycle with some assets valued on a “more” regular basis; All investments and Surplus properties are valued every year. Top 50 Operational assets by capital value are valued ever year.</p> <p>Council Dwellings based on beacon valuation over a rolling 5 year cycle, Those not valued in year are uplifted by market indices.</p> <p>At balance sheet date all valuations are reviewed with current market indices to determine whether any material change in value has occurred on the portfolio. Subject to any material change would “trigger” further analysis and possible change on portfolio values.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Council dwelling valuations	In accordance with MHCLG Stock Valuation for Resource Accounting, Guidance for Valuers 2016	All valuations are checked / verified to determine that appropriate metrics have been obtained and applied accurately	As Above	As Above	No
Investment property valuations	In accordance with RICS and CIPFA (IFRS) proper practice	All valuations are checked / verified to determine that appropriate metrics have been obtained and applied accurately, firstly by CBRE and then verified by a Senior Property Valuer.	As Above	As Above	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Straight line / Reducing balance depending on asset type	Cipfa.Net – IFRS compliant asset register.	As above	Subject to the above	No
Valuation of defined benefit pension fund liabilities	This depends on a number of complex judgements relating to: the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund investments.	The Council relies on the valuation provided by the Actuary, however would query any significant variations from that anticipated during the year.	Yes the Council has engaged Mercer Ltd, a firm of consulting actuaries, to provide expert advice about the assumptions to be applied.	The Council has assessed the underlying assumptions and applied sensitivity analysis to the key assumptions made in the report from the Actuary.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates Page 55	Various approaches are considered including Income, market and cost before deciding on the appropriate method to value our interests	Recommended practices followed - Peer review	The Council employ officers with significant knowledge and experience in this field. In addition employ Treasury advisors , as well as specialist external valuers for advice as and when appropriate.	Changes to market conditions (local and global), and comparable data is used. Various approaches are considered including Income, market and cost before deciding on the appropriate method to value our interests.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions Page 56	Provisions are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. The provision for business rates appeals is by far the Council's largest provision. This is based on the Valuation office (VOA) rating appeals list and analysis of successful appeals to date.	Charged in the year that the Council becomes aware of the obligation. (For business rates appeals see previous comments re VOA)	No	Estimated settlements are reviewed at the end of each financial year (business rates quarterly) – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<p>Accruals</p> <p>Page 57</p>	The Council does not generally rely heavily on estimated accruals. Accruals are either system generated at year-end or manually input with an invoice to evidence. Capital creditors likewise based on invoice or valuation report. However appropriate training is given to budget managers on the proper establishment of accruals	Staff with access to the Financial Systems record goods receipt notes for goods/services 2021/22, with system-generated accruals being carried-forward. Manual accruals – invoice evidence. Training for budget managers.	No	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No
Credit loss and impairment allowances	The Council follows the guidance laid down in IFRS 9. Analysis of aged debt. Review of historic collection rates for specific services/customer groups.	System aged debt analysis produced for the various categories of outstanding debt as at 31 March Independent information, peer review, Treasury advisor review	No	Assessment of likelihood of collection based on historic collection rates. Consideration of likely recovery for specific categories of debt. Assessment of COVID-19 Impact .	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	The Council has no finance lease liabilities.	N/A	N/A	N/A	N/A
PFI liabilities	The original recognition of the liability was based on its fair value - the cost to purchase the asset written down by any contribution. This is then written down annually as set out in the PFI model using the same principals for a finance lease)	Peer review of model and accounting entries	Advisors were used at inception along with senior finance professionals , and senior finance professionals continue to monitor and review these contracts.	Based on IFRS recommended practices - same principals used for Finance leases.	No

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Audit Committee

21st November 2022



Report of: Service Director: Finance

Title: Treasury Management Mid-Year Report 2022/23

Ward: City Wide

Officer Presenting Report: Ravi Lakhani

Recommendation

That the Mid-Year Treasury Management report for 2022/23 is noted.

Summary

This report meets the treasury management regulatory requirement that the Council receive a Mid-Year Treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans.

The significant issues in the report are:

There are no policy changes to the Treasury Management Strategy Statement; the details in this report update the position in light of the updated economic position and budgetary changes. The authority has a net borrowing requirement of £608m over the next five years but is not planning on undertaking any new borrowing during the financial year while the Council hold's adequate treasury investments to meet the liquidity requirements of the Council.

However, the Council will undertake borrowing earlier should market opportunities arise to borrow at fixed rates lower than forecasts to reduce the interest rate risk exposure to the authority due to the significant borrowing needed over the medium term to support the financing of the Council's current capital programme.

Policy

1. There are no policy implications as a direct result of this report. It should be noted that new regulations have been implemented to only allow Council's to borrow to fund capital investment in assets to deliver services and have made clear that authorities are not allowed to borrow to invest in assets primarily for yield. In addition, should the Council have any capital schemes where the intention is to invest in assets primarily for yield, regardless of the source of funding, this would preclude the Council from accessing borrowing from the Public Works Loan Board, the Council's primary source of debt financing.

Consultation

Internal

2. Strategic & Service Directors.

External

3. The Council's Treasury Management advisers

Purpose / Context of the report:

4. This report meets the treasury management regulatory requirement that the Council receive a mid-year treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).
5. That the mid-year report is structured to highlight:
 - The economic outlook;
 - The actual and proposed treasury management activity (borrowing and investment);
 - The key changes to the Council's capital activity (the prudential indicators {PIs}).

Background

6. Treasury management is defined as:
"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
7. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Treasury management operations aim to ensure that cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
8. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Introduction

9. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised in 2021) has been adopted by this Council. The primary requirements of the Code are:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by the Full Council of an annual Treasury Management Strategy Statement (TMSS) - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For Bristol City Council the delegated body is Audit Committee.

10. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2022/23 financial year to 30 September 2022;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken or planned during 2022/23;
- The Council's capital expenditure and prudential indicators;
- A review of compliance with Treasury and Prudential Limits for 2022/23.

Key Changes and updates to the Treasury and Capital Strategies

11. There are no policy changes to the TMSS; the details in this report update the position in light of the latest economic position and budgetary changes.

The 2022–2027 Treasury Strategy (approved 15th February 2022) identified a medium term net borrowing requirement of £608m to support the existing and future Capital Programme with the debt servicing costs met from revenue savings from capital investment and the economic development fund. The Council's agreed policy is to defer borrowing while it has significant levels of treasury cash balances (£196m at September 2022, £140m estimated for March 2023). However, the Council will undertake long term borrowing when rates are deemed advantageous to reduce the Council's exposure to interest rate risk. No borrowing has been undertaken during the year and it is currently planned that no new borrowing will be undertaken during the remainder of the year while treasury balances remain elevated.

Analysis of Debt and Investments

12. A summary of the of the Council's debt and Investment position as at 30th September 2022 (including forecast at 31st March 2023) compared with 31st March 2022 is shown in the table below:

Debt & Investments	31 st March 2022		31 st September 2022		31 st March 2023	
	Actual		Actual		Forecast	
	£m	Rate% ^{*b}	£m	Rate% ^{*b}	£m	Rate% ^{*b}
Long Term Debt – PWLB Fixed	331	4.63	331	4.63	331	4.63
Long Term Debt – Market LOBO ^{*a}	70	4.09	70	4.09	70	4.09
Long Term Debt – Market Fixed	50	4.04	50	4.04	50	4.04
Estimated “New” Short Term Borrowing	-	-	-	-	-	-
Total Debt	451	4.48	451	4.48	451	4.48
Investment	237	0.08	196	1.01	140	1.75
Net Borrowing Position	214	-	255	-	311	

^{*a} Lender option Borrower option, ^{*b} reflects the average rate for the year taking account of new loans and repayments.

We are currently achieving a return of 1.01% on our investments for the period to 30 September 2022. The return for the year is expected to rise to, circa 1.75% due to anticipated base rate rises from the current 3.00%^{*09/11/2022} to 4.5%.

The authority’s advisors are forecasting the base rate to peak at 4.5% in June 2023 before falling back in gradual rate cuts to 2.5% over the medium term. Long term interest rates (PWLB) are expected to fall from their levels in September of 5% to circa 3.20% over the medium term.

Economic Update

13. The first half of 2022/23 saw:

- Gross Domestic Product (GDP) was revised upwards in Quarter 1 of 2022/23 to +0.2% from (0.1%), which means the UK economy has avoided recession for the time being;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- Core Price Inflation (CPI) inflation eased from 10.1% in July to 9.9% in August and then rose to 10.1% in September. Domestic price pressures are showing little sign of abating in the near-term, with Inflation expected to remain elevated at over 10% in the near term until mid 2023 when inflation is expected to fall sharply;
- The unemployment rate fell to a 48-year low of 3.6% due to the shortfall in labour supply;
- Bank Rate increased by 100bps, taking Bank Rate to 2.25% with further rises anticipated (subsequently raised to 3% on 3rd November 2022);
- Gilt yields rose significantly and sterling fell following the “mini budget” on 23rd September.

14. The UK economy grew by 0.2% in Quarter 1 2022/23, below pre-pandemic levels.

There are signs of higher energy prices creating downward effects in economic activity. Both industrial production and construction output fell in July 2022 for a second month in a row.

With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

The fall in the composite Purchasing Managers Index (PMI) to a 20-month low of 48.4 in September indicates to a fall in GDP of around 0.2% in Quarter 3.

Consumer confidence is low, retail sales volumes fell by 1.6% in August, which was the ninth fall in 10 months. This has left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year.

The labour market remains exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). The unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. In July, the rate of average earnings growth rose from 5.2% in June to 5.5%.

15. Core Price Inflation (CPI) inflation eased from 10.1% in July to 9.9% in August. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. With the price of oil continuing to fall we would expect to see fuel prices fall further in the coming months.

However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). The direction of travel for energy price inflation is dependent on what Central Government do once the price cap expires.

Nonetheless, the rise in services CPI inflation from 5.7% in July to a 30-year high of 5.9% in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong.

16. There have been significant changes in the leadership and Cabinet of the government.

The government announced a mini budget on the 23rd of September with significant fiscal loosening from its proposed significant tax cuts, including the utility price freeze, reversal of national insurance and cuts income and Corporation tax.

The majority of these proposals were reversed following the change in Chancellor on the 14th of October. This was following the financial markets reaction to this mini budget and fear that the government had no fiscal anchor on the back of these announcements. The pound weakened against all major currencies adding further upward pressure to interest rates along with the Bank of England having to intervene to calm markets.

The pound fell to a low of \$1.035 on the Monday following the government's "fiscal event", it has since recovered to around \$1.13.

17. The Monetary Policy Committee has increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. The Federal Reserve and European Central Bank raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest being 50 basis points rise looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% to a peak of 4.50% in June 2023. The combination of the government's fiscal loosening, the tight labour market and inflation expectations means we expect the MPC to raise interest rates by 50bps at the policy meetings in December (to 3.50%) followed by further 75 basis point rise in February and March (to 4.25%). Note interest rise to 3% on 3rd November

If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak is lower than the peak of 5.50% - 5.75% that has been priced into the financial markets.

18. Throughout 2022/23, gilt yields have been on an upward trend. They initially rose as part of the global surge in bond yields triggered by the strong rise in Core Price Inflation in the United States in May.

The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharp at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. The Bank of England restarted Quantitative Easing although for financial stability reasons rather than monetary policy reasons.

Since the Bank's announcement on 28th September, and the "U-turn" of the mini budget, the 30-year gilt yield has fallen back from 5.10% to 3.90%. The 2-year gilt yield dropped from 4.70% to 3.50% and the 10-year yield fell back from 4.50% to 3.60%.

19. After a "bumpy" start to the year, the stock market (FTSE 100) climbed in the first half of Q2 2022/23 before falling to their lowest levels since July 2021. The FTSE 100 is 5.2% below its level at the start of the quarter. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

Interest rate forecasts

20. The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Group Interest Rate View 08.11.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

PWLB rates are certainty rates, gilt yields plus 180bps

The latest forecast on 8th November sets out a view that both short and long-dated interest rates will be elevated for some time while the Bank of England seeks to reduce inflation and government

is providing a package of fiscal loosening to try and protect households and businesses from the ultra-high wholesale energy prices.

The increase in Public Works Loan Board (PWLB) rates reflects a broad sell-off in sovereign bonds internationally along with investors reduced appetite due to the current position of the UK public finances. The Monetary Policy Committee (MPC) have tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

Investment Portfolio 2022/23

21. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in the "Economic Update" interest rates are anticipated to rise and peak at 4.5% by June 2023 at which point will fall back over the medium term to 2.5%.

Given this environment and the likelihood that Bank Rate will rise quickly over the coming months the Council will ladder their investments on a short-term basis taking account of these anticipated rate rises that will also reduce the counterparty risk exposed to the authority by having a shorter dated investment portfolio.

22. The Council held £196m of Treasury investments as at 30th September 2022 (£237m at 31 March 2022) with an average maturity of 56 days. These investments are predominately with local authorities, money market funds and UK banks. The investment portfolio yield for the first six months of the year was 1.01%. The standard comparator for investment performance is the benchmark SONIA¹, which for the period was 1.22%.

¹SONIA – Sterling Over Night Index Average rate is a recognised reference rate to benchmark short-term investment interest rates.

23. The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2022/23.
24. The current investment counterparty criteria selection approved in the TMSS is the method by which treasury management investment are chosen.

Borrowing

25. The Capital Financing Requirement (CFR) denotes the Council's underlying need to borrow for capital purposes. The Council's CFR at 31 March 2023 is estimated to be £970m. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing).
26. The balance of borrowing between external and internal is generally driven by market conditions and forecasts of future cash flows and interest rates. At the 31st March 2022 the Council had external borrowings of £576m and has utilised £376m of internal cash in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require on-going monitoring in the event that upside risk to gilt yields prevails.
27. However, internal borrowing is a temporary measure that takes advantage of low interest rates and will ultimately be replaced by more expensive external borrowing as the cash used is required elsewhere. The timing and amount of new external borrowing is therefore dependent

on capital spending decisions, future cash flows and forecasts of interest rates.

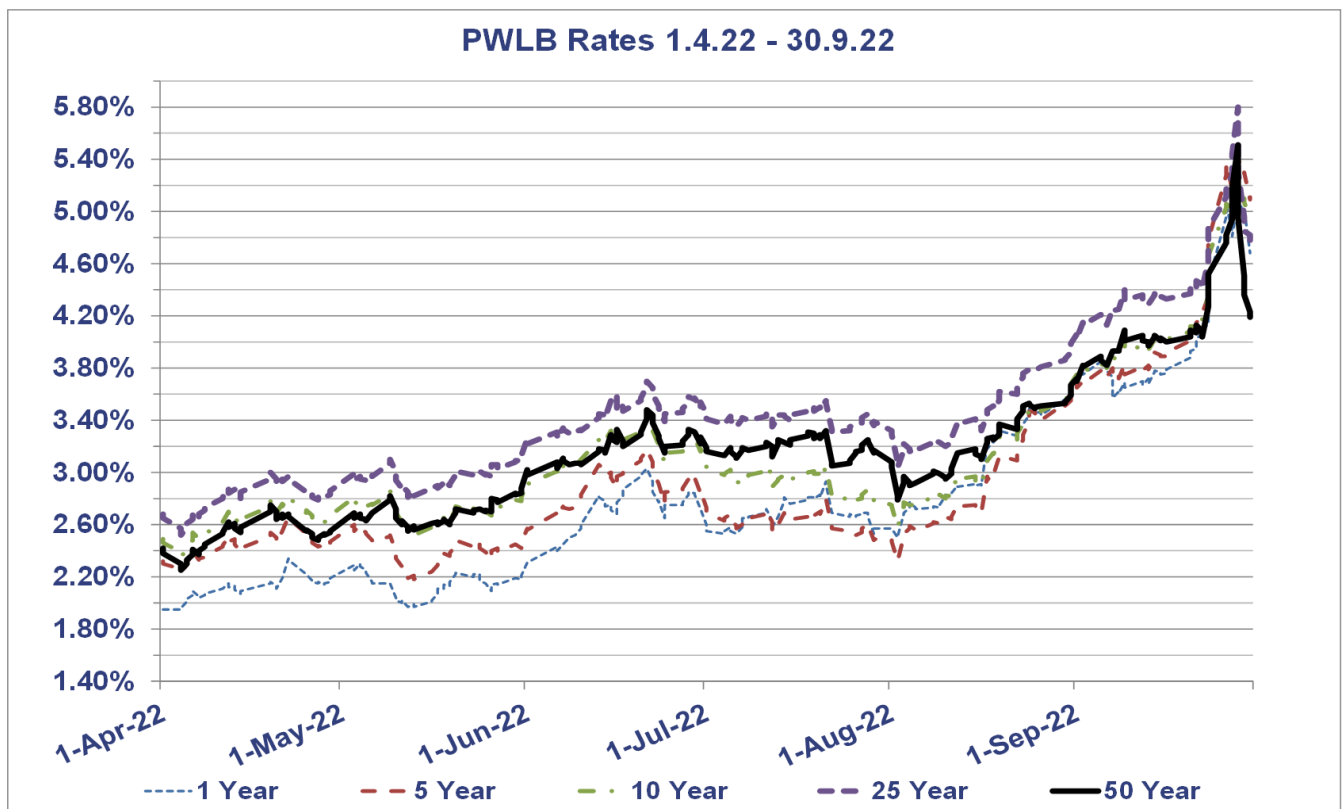
28. The Council does have an underlying need to borrow for capital expenditure requirements, along with the Council expecting to hold significant treasury investments for the remainder of the year to meet liquidity requirements. The Council is therefore not planning on any further borrowing for the remainder of the year. This will reduce the net financing costs of the authority along with reducing the Council's exposure to counterparty risk.

However, should there be a risk that borrowing costs will rise quicker and remain elevated for longer than expected then the Council will consider borrowing to reduce the Council's internal borrowing position and reduce its interest rate risk exposure.

29. PWLB rates were on a generally rising trend throughout the year, before they rose exceptionally towards the end of September following the mini budget.

The 50-year PWLB rate for new long-term borrowing started 2022/23 at 2.40%, increasing to 5.51% before falling back to 4.20% in September. (Please note, it is estimated that PWLB rates will trend downwards through 2023 and 2024).

The graph and table below show the movement in PWLB certainty rates for the first six months of the year.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

Debt Rescheduling

30. Debt rescheduling opportunities have been limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new and repayment borrowing rates since October 2010. The authority's debt portfolio is made up of long dated loans (PWLB £331m, Market Debt (LOBOS) £70m and Market Debt (Fixed) (£50m) averaging 31 years. The estimated penalty to repay the PWLB loans early is £66m, taking the total cost to £397m. In respect of the market loans, where indicative prices have been provided, a similar level of penalty has been quoted.
31. The total life cycle cost of rescheduling loans on a discounted cash-flow basis has been reviewed with no loans providing a positive cash-flow benefit to the authority. This would in part be due to early repayment penalties that the authority will incur. For these reasons no debt rescheduling has been undertaken during the first six months of the year and none is currently anticipated for the remainder of the year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

Ethical Equitable Investment Policy

32. An Ethical Investment Policy is incorporated within the Treasury Management Practice Statements (TMPS). The City Council currently invest surplus funds with Banks and Building Societies either directly or via the Money Markets in the form of instant access cash deposit accounts, money market funds or on fixed term deposit and with other local authorities. The City Council's ethical equitable investment policy is based on the premise that the City Council's choice of where to invest should reflect the ethical values it supports in public life. The City Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the City Council.

The Council's Capital Position (Prudential Indicators)

33. This part of the report is structured to update:
- The Council's capital expenditure plans;
 - How these plans are being financed;
 - The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
 - Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

34. This table shows the latest estimates for capital expenditure:

Capital Expenditure by Service	2022/23 Approved Programme £m	2022/23 Period 6 Forecast £m
Non-HRA	177	175
HRA	123	73
Total	300	248

35. The latest capital monitoring report for the end of September 2022 sets out a capital forecast of £248m detailed within the period 6 monitoring report presented to Cabinet in November 2022.

Financing of the Capital Programme

36. The table below draws together the capital expenditure plan and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2022/23 Approved Programme £m	2022/23 Period 6 Forecast £m
Total spend	300	248
Financed by:		
Capital receipts	73	57
Capital grants	85	86
Revenue / Reserves	34	3
HRA – Self Financing	30	30
Prudential Borrowing – Increase in Capital Financing Requirement	78	72
Total financing	300	248

Capital Financing Requirement (CFR) & Operational Boundary

37. The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose and it also shows the expected debt position over the period. This is termed the Operational Boundary.

Capital Financing Requirement	2022/23 Original Estimate £m	2022/23 Latest Estimate £m
CFR – non housing	745	725
CFR – housing	249	245
Total CFR	994	970

External Debt (Operational Boundary)	2022/23 Approved Indicator £m
Borrowing	516
Other long term liabilities*	124
Total debt 31 March	640

* On balance sheet PFI schemes and finance leases etc.

38. The revised Capital Financing Requirement is based on the actual CFR as at 31 March 2022 (£914m) increased by in-year capital expenditure financed by borrowing (£72m) and reduced by the minimum revenue provision (MRP) for repayment of debt and the repayment of the debt facilities within other long term liabilities (£16m).

Limits to Borrowing Activity

39. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2022/23 Original Estimate £m	2022/23 Latest Estimate £m
Gross borrowing	516	451
Plus other long term liabilities*	124	125
Gross borrowing & long term Liabilities	640	576
CFR* (year-end position)	994	970

* Includes on balance sheet PFI schemes and finance leases etc.

40. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.
41. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

Authorised limit for external debt	2022/23 Approved Indicator £m
Total Borrowing	1,010

Proposal

42. That the Mid-Year Treasury Management report for 2022/23 is noted.

Other Options Considered

43. None

Risk Assessment

44. Borrowing and lending activity is reported to the Mayor.
The principal risks associated with treasury management are:

Risk	Mitigation
Loss of investments as a result of failure of counterparties	Limiting the types of investment instruments used, setting lending criteria for counterparties, investing in only high quality low risk counterparties and limiting the extent of exposure to individual counterparties
Increase in the net financing costs of the authority due to borrowing at high rates of interest / lending at low rates of interest	Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking most long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs)

Public Sector Equality Duties

45. a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following “protected characteristics”: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:
- i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.
 - ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to;
 - remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons')

-
- disabilities);
 - encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
 - iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
 - - tackle prejudice; and
 - - promote understanding.

b) There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Legal and Resource Implications

Legal

The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management, and the approval of types of investment vehicle are governed by legislation and various regulations. The Council is obliged to comply with these.

(Legal advice provided by Tim O’Gara - Service Director - Legal and Democratic Services)

Financial

(a) Revenue

The financing costs arising from planned borrowing are provided for in the revenue budget and medium-term financial plan. Any additional operating costs will have to be contained within the revenue budget of the relevant department.

(Financial advice provided by Jon Clayton - Capital and Investments Manager)

(b) Capital

The latest economic forecasts and implementation of the Treasury management strategy indicate that sufficient funds will be available to fund capital expenditure over the medium term while adhering to prudential indicators.

Land

Not applicable

Personnel

Not applicable

Appendices:

None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

None

Audit Committee

21 November 2022



Report of: Corporate Risk Register – deep dive

Title: Deep Dive: CRR12 Failure to Deliver Effective Emergency Planning

Ward: N/A

Presenting Report: Jim Gillman, City Operational Planning and Response Manager

Recommendation

To note the contents of the report

Summary

The purpose of this report is to provide the Audit Committee with a 'deep dive' into corporate risk CRR12: 'Failure to Deliver Effective Emergency Planning'



Policy

None

Consultation

1. Internal

None

2. External

None

Proposal

3. None

Other Options Considered

4. None

Risk Assessment

5. As per Corporate Risk Register

Summary of Equalities Impact of the Proposed Decision

6. None

Legal and Resource Implications

Legal

None arising from this report

Financial

(a) Revenue

None arising from this report

(b) Capital

None arising from this report

Land

None arising from this report

Personnel

None arising from this report

Appendices:

Appendix A: Report for Audit Committee: CRR12 Failure to Deliver Effective Emergency Planning

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

None

Appendix A:**Report for Audit Committee – CRR12 Failure to Deliver Effective Emergency Planning**

10 November 2022

Purpose of this report:

The purpose of this paper is to provide the Audit Committee with a ‘deep dive’ into the corporate risk CRR12: Failure to Deliver Effective Emergency Planning.

Context:

CRR12 covers BCC’s role as a **Category 1 Responder** to emergencies under the **Civil Contingencies Act** and its associated ability to respond effectively to emergencies and major incidents that befall the city.

Under the Act, all Local Authorities are identified as Category 1 Emergency Responders, along with Police Services, Fire Services, Ambulance Services, parts of the NHS and the Environment Agency. Although blue light emergency services are likely to lead the response phase to an emergency, Local Authorities will always lead the recovery phase.

As a Cat 1 Responder, BCC has a lead and active role in the **Avon & Somerset Local Resilience Forum (ASLRF)**, the multi-agency ‘vehicle’ for joint emergency planning. There is an LRF for every police force area in England.

Civil emergency risks are identified through a localised understanding of the **National Security Risk Assessment (NSRA)**, as well as local issues and events.

The **Civil Protection Unit (CPU)** lead and coordinate emergency planning work, but roles and responsibilities fall across the organisation.

Recent history of the risk score for CRR12:

Risk score was raised from 15 to 21 in Q1. This reflected

- the emergence and impacts of new geopolitical risks (Ukraine) and associated threats to energy supplies
- the ‘concurrency’ of the ongoing global pandemic
- the growing threat of climate related severe weather events
- the ‘ongoing’ risks identified in the NSRA (e.g. terrorism, fire, infrastructure failure, etc)
- the expanded focus on resilience in light of these uncertainties, particularly on infrastructure resilience (including utilities) and supply chains

The increase in the risk score was in relation to the changing risk profile, not to the internal controls in place to manage the risk.

CRR12 is related to CRR5: Business Continuity.

Internal Controls:

Governance and oversight:

The **Corporate Resilience Group** oversees the delivery of BCC's emergency management system, including training and exercising. It is chaired by the Director, Management of Place with Director leads for the other Directorates (Director, Policy, Strategy and Digital for Resources and Director of Public Health for People) and including other relevant Heads of Service (including, for example, adult social care, Housing and Highways). This group has been re-invigorated since Covid; the ToR and membership has been reviewed and a reviewed work programme is underway.

Partnership working:

BCC plays an active and lead role in the ASLRF. Director, Management of Place represents BCC on the ASLRF Executive Group. BCC, led by the Civil Protection Manager, lead aspects of ASLRF work, including work with Voluntary Agencies and Excess Death and Emergency Mortuary planning. BCC also plays a central role in ASLRF risk assessment work and other capability themed work.

The **Avon & Somerset Local Health Resilience Partnership (ASLHRP)**, made up of NHS and Public Health organisations but under the umbrella of the ASLRF, leads health emergency planning, looking at risks such as emerging infectious diseases and mass casualties. Public Health colleagues represent BCC on the ASLHRP.

Emergency Plans

BCC produces and works to:

- ASLRF emergency plans, including the ASLRF Major Incident Response Guide
- A suite of internal emergency strategic, tactical and operations plans. These are published on the Source (where protective markings allow)
- 'Regulated' emergency plans (plans overseen by the Health and Safety Executive) regarding our industrial sites at Avonmouth and Severnside and the city pipelines that carry hazardous material. These are known as COMAH (Control of Major Accident Hazards) and MAHP (Major Accident Hazard Pipelines) plans. CPU chair the Severnside Emergency Planning Forum, a group made up of industry and agencies that maintain, train and exercise these plans.

The BCC Strategic Emergency Management Guide was signed off by CLB on 4 October 22.

The BCC Incident Response Plan and Recovery Plans provide the basis of how BCC will respond to and recover from an emergency.

Risk and capability themed plans, such as the Flood Plan, the Severe Weather Plan, the Fuel Shortage Plan, the Humanitarian Assistance Plan are also in place.

24/7 Operations Centre and Duty Rotas, including Duty Director rota

BCC maintains a robust out of hours capability. The 24/7 Bristol Operations Centre is the contact point for the emergency services, as well as providing 24/7 CCTV monitoring and a range of critical emergency services for BCC residents and tenants. Bristol Operations Centre staff are trained to initiate the BCC emergency response and log initial decisions and actions taken.

Out of hours duty rotas are maintained at the Strategic (Duty Director), Tactical (Civil Protection, Public Health and Communications) and Operational levels (Highways and Traffic, Housing, Environmental Health, Dangerous Structures, Social Care, Port Health)

Training and exercising

CPU maintain a ‘training needs analysis’ which identifies training and exercising needs and is overseen by the Corporate Resilience Group.

BCC training, although disrupted by Covid (in itself a comprehensive ‘exercise’), has re-started and recent sessions have covered: Duty Officer training; Rest Centre Management and Volunteer training; emergency loggists training, and flood barrier training. Sessions in ‘crisis decision making’ are being planned. eLearning packages are in development.

Recent BCC emergency exercises have been held covering power outages (03/22), rest centre management (10/22), IT outages (09/22), recovery (10/22) and fires in high rise buildings (07/22 and 09/22).

Multi-agency and national exercising have also come back online post-Covid: Ex Nova One (COMAH exercise), held 11/21, Ex Governing (Counter Terrorism), held 12/21 and Bristol Airport Exercise, held 03/22.

Community Resilience:

CPU have compiled a GIS ‘community resilience’ mapping capability – identifying hazards and emergency response resources, such as rest centre and place of safety locations, and mapped against other relevant city indicators, such as deprivation. This is used to understand local risk and impacts. CPU lead the Avon Area Voluntary Agency Group (AAVAG), a sub-group of the LRF, which is made up of local ‘emergency response’ voluntary agencies such as Wessex 4x4, St Johns Ambulance, the Red Cross and others. Work is underway with the Community Development team to build closer relations with ‘non-emergency’ community groups.

City events:

CPU sit on the Safety Advisory Group for Events (SAGE) and provide significant emergency planning support for major city events such as the Harbour Festival and the St Pauls Carnival.

Related National issues:

- The ongoing Public Enquiries into the Manchester Arena bombings, the Grenfell tragedy and Covid, as well as the imminent ‘Protect Duty’ are likely to produce further emergency planning demands on Local Authorities.
- We lack guidance from Government regarding the role of local elected officials in emergency planning and response, particularly urban Mayors.
- The government is developing a ‘National Resilience Strategy’ which will aspire to make the UK the ‘most resilient nation’. Whilst the ambition is good, there is a significant gap between the ambition and the reality of stretched and resource-strapped response agencies, energy and food insecurity and weakened supply chains. Overall, it is not a ‘resilient’ picture.
- LRFs have benefitted from the government LRF funding pilot, which has now been extended for 3 years. This amounts to c£170Kpa for ASLRF. Whilst this is welcome, without corresponding resilience funding to agencies, there is a risk of imbalance and the prospect of the ‘creation of an industry’ at the regional level which does little to boost resilience for local communities or emergency responder agencies.

Recent incidents:

- Covid learning is still being absorbed; the reality of a ‘nationwide, all encompassing’ emergency has highlighted the challenges of working at the strategic level across so many systems and sectors in an emergency, particularly Health systems.
- However, emergency systems were sufficient to manage the concurrent emergencies that took place during Covid; fatal industrial accidents (Wessex Water incident 12/20), infrastructure failures (multiple water outages), severe weather (e.g. Storm Eunice) and major protests (Colston, Kill the Bill)
- Emergency systems were also sufficient to manage the most recent spate of emergencies: the heatwave last summer, the Twinnell House Fire, the Bedminster ‘pipe bomb’ evacuation, and the Ecclestone House Fire, although debriefs and the process of identifying lessons is ongoing.
- CPU have expended significant recent operational effort on managing public protests and demonstrations. This is likely to continue.

The coming winter:

The winter is going to be extremely challenging. Usual preparations for winter risks have taken place. However, new risks and threats are abundant:

- uncertainties around energy supplies;
- the ongoing and escalating impact of the cost of living crisis;
- the threat of widespread industrial action, particularly in key areas such as the Fire Service and Nursing
- the impact of internal cost saving measures, including the loss of many experienced staff and emergency volunteers

The desire for ‘resilience’ (now reflected in the corporate strategy) needs to be realistic. Although the internal controls in place to mitigate CRR12 are strong, the reality is we are living through extremely uncertain times. The delivery of the BCC emergency management system is dependent on a small but skilled CPU team (4 fte + 1 fixed term contract, ending 06/23). The team have worked incredibly long hours over the last 3 years.

Jim Gillman
City Operational Planning and Response Manager

Audit Committee

21st November 2022



Report of: Chief Internal Auditor

Title: Counter Fraud Update

Ward: Citywide

Officer Presenting Report: Simba Muzarurwi – Chief Internal Auditor

Recommendation

The Audit Committee note the Counter Fraud Update report for the period of 1st April to October 2022 and approve the revised Fraud Policy and Strategy.

Summary

This Report provides the Committee with summary of the work undertaken by the Internal Audit – Counter Fraud team during April 2022 to October 2022.

Significant Matters Arising:

The key messages arising from this report are;

- Counter-fraud work in key fraud risk areas continues to contribute significant benefits across the Council in the fight against fraud. The report details these benefits and advises how key fraud risks to the council are being tackled.
- The National Fraud Initiative (NFI) fraud hub has now been implemented enhancing the Council's arrangements for detecting and investigating fraud.
- Whistleblowing referrals have increased from previous levels which might indicate increased confidence by staff in using the procedure.
- High level details of outcomes from all completed investigation during the period under review are included in the report.
- The Fraud Policy and Strategy document has been revised to include fraud response plan and a new section on fraud prevention.

1. Policy

Audit Committee Terms of Reference

2. Consultation

Internal – Corporate Leadership Board including S151 Officer, Cabinet Member for Governance, Resources and Finance.

External – N/A

3. Context

3.1 This is the half yearly update report outlining the counter fraud work that has taken place in Bristol City Council. The report is provided to:

- provide an overview of the work and results of the Counter Fraud and Investigation team during the period 1st April 2022 to 31st October 2022;
- demonstrate how the Council is dealing with some of the fraud risks it is subject to;

3.2 The full report can be found at Appendix A

3.3 Key points arising from the Fraud Update Report:

- The team has delivered 18 positive housing outcomes (*for example a property recovered for re-let or false housing application cancelled*)
- Through the tenancy fraud work the team has achieved notional savings of £1.2m and recoverable savings of over £50k
- Cancellation of 318 blue badges and 1040 concessionary travel passes preventing fraudulent misuse and incorrect renewals of badges and passes.
- Identification of recoverable savings of £156k through other fraud work.
- The Fraud Awareness Week provides the opportunity for the team to undertake a number of awareness initiatives across the Council.
- A total of 12 whistleblowing cases have been closed during the period while 10 are currently in progress.

4. Proposal

4.1 The Audit Committee notes the work of the Internal Audit – Counter Fraud and Investigations team during the period of covered by the report and the results there of.

5. Other Options Considered – N/A

6. Risk Assessment

The work of Internal Audit Counter Fraud team reduces fraud losses and increases the potential for prevention and detection of such issues.

Public Sector Equality Duties

- 7a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following “protected characteristics”: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:
- i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.
 - ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --
 - remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);
 - encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
 - iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
 - tackle prejudice; and
 - promote understanding.
- 7b) No Equality Impact anticipated from this report.

Legal and Resource Implications

Legal – N/A
Financial – N/A
Land – N/A
Personnel – N/A

Appendices:

- **Appendix A – Counter Fraud Update Report**

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:



Counter Fraud & Investigation Half Year Report 2022-2023

Simba Muzarurwi
Chief Internal Auditor



1. Introduction

- 1.1 The Council's Counter Fraud and Investigation Team investigates allegations of fraud and irregularity against the council and is committed to upholding the council's Fraud, Bribery and Corruption Policy. The Council's policy is aligned to the Fighting Fraud and Corruption Locally Strategy 2020 which is the government's 'blue print' for tackling fraud in Local Government.
- 1.2 The Team works across all directorates to support the identification and prevention of fraud and to provide a dedicated proactive counter fraud and responsive investigation service. Working on behalf of the council the team ensures that the organisation's counter-fraud arrangements are robust by raising awareness of the fraud risk, reviewing and improving fraud risk management arrangements, using data to actively seek out fraudulent activity and monitoring the extent to which the Council is impacted by fraud.
- 1.3 The purpose of this report is to:
- Provide details of the work undertaken and the outcomes of Counter Fraud and Investigation work during the period 1st April 2022 to 30th September 2022.
 - Provide a high-level update on conclusions and outcomes from completed investigations including those relating to whistleblowing allegations.
 - Provide details of other planned proactive and preventative fraud work carried out in the first half of 2022/23
 - Outline the key priorities for the second half of the year.

2. Key Messages

- 2.1 This report highlights the diversity of work carried out by the Counter Fraud team and that it is tackling fraud in accordance with the government's blue print – 'Fighting Fraud and Corruption Locally'. The council's arrangements and the work completed has covered all of the 5 pillars outlined in the strategy:

PILLAR	REQUIREMENTS
Govern	Robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.
Acknowledge	Understand and assess our fraud risks for on going operations, new initiatives and projects. Commit the right support and tackling fraud and corruption. Demonstrate a robust anti-fraud response. Communicate risks to those charged with Governance.
Prevent	Make best use of information and technology. Enhance fraud controls and processes. Develop an effective anti-fraud culture. Communicate activity and successes.

Pursue	Prioritise fraud recovery and use of civil sanctions. Develop capability and capacity to punish offenders. Collaborate across geographical and sectoral boundaries. Learn lessons.
Protecting itself and its residents	Recognise the harm that fraud can cause in the community. Protect itself and its residents from fraud.

2.2 The key outcomes from the work completed during the period under review include:

- Delivering 18 positive housing outcomes (for example a property recovered for re-let or false housing application cancelled) and 1 positive other outcome from continued work on tenancy fraud
- Through the tenancy fraud work the team has achieved notional savings of £1.2m and recoverable savings of over £50k
- Identifying recoverable savings of £156k generated by the team from various other fraud work.
- Cancellation of 318 blue badges and 1040 concessionary travel passes preventing fraudulent misuse and incorrect renewals of passes.

2.3. Other highlights included -

- A blue badge exercise carried out with Parking Services and Avon and Somerset Police.
- A joint exercise with Housing Options in respect of temporary accommodation.
- The provision of several training sessions to raise awareness of fraud and other related issues.

3. Tenancy Fraud

- 3.1 Tenancy fraud and abuse is a key risk area for the Council. In support of the Council's strategic objective of reducing homelessness and to help ensure that council housing properties are allocated to and used by those with a genuine need, the team undertakes a significant and important programme of work each year to identify and recover properties lost to tenancy fraud.
- 3.2 The team has an annual performance target of 40 council property regains or positive housing outcomes. The team have achieved 18 property regains or positive housing outcomes during the first half of the year. A positive housing outcome could be a person removed from the housing register due to a fraudulent application, or a fraudulent right to buy application cancelled. In addition, other positive outcomes can result from tenancy fraud work such as benefit savings or the removal of single persons discount from a council tax account.
- 3.3 Through the tenancy fraud work the team has achieved notional savings of £1.2m and recoverable savings of over £50k.
- 3.4 The team has delivered bespoke fraud awareness training to the following teams in Housing and Landlord Services:
- New Housing Officers
 - Caretaking

- 3.5 The team has worked with colleagues in Housing Options to assist in verifying payments for temporary accommodation. A joint visiting exercise was carried out and further exercises are planned. This work has enabled an invaluable sharing of knowledge and expertise.

4. Benefit Fraud

- 4.1 The team provides a role to support the Department for Work and Pensions (DWP) in their housing benefit fraud investigation and compliance work. The team has dealt with:
- 93 requests for benefit information and documents.
 - 2 witness statement requests.
- 4.2 The team also investigate Council Tax Reduction (CTR) offences. The team has received 9 referrals. Of these 9, there are 3 cases where there is reason to suspect serious fraud and the team is working jointly with the DWP.
- 4.3 As a result of National Fraud Initiative (NFI) data received in 2021 there were two ongoing CTR investigations involving BCC employees. One case resulted in a prosecution, with disciplinary proceedings ongoing. The other case resulted in a financial penalty* and a formal warning.

* An administrative penalty as set out in The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.

5. Blue Badge and Parking/Travel

- 5.1 The team undertook a proactive blue badge exercise in July 2022. The exercise was carried out in collaboration with Parking Enforcement colleagues and Avon and Somerset Police. On the day there were four cases identified of suspected blue badge misuse. Of these 4 cases:
- One has been closed with no further action appropriate.
 - One simple (formal) caution has been issued.
 - Two are being considered for criminal prosecution.
- 5.2 In addition to the proactive exercise, nine referrals have been received. Some of these relate to parking concerns around Southmead Hospital, by hospital staff. The team has arranged for the relevant information about parking and blue badge use to be included in a hospital newsletter.
- 5.3 Formal warnings about parking and the use of blue badges have been issued to a further two people.

6. Other Investigation Work

- 6.1 The team has received two allegations of fraud relating to school admissions. Further work is underway to explore the use of data analytics in preventing fraud in this area.
- 6.2 A suspected council tax fraud is being reported to the National Crime Agency in accordance with the Council's Money Laundering Policy.
- 6.3 Following an investigation, concerns were identified about the use of council credit (purchase) cards in a Service within the Growth and Regeneration Directorate. A report was issued highlighting the

noncompliance with the Council's Purchase Card Policy and the required actions to rectify this were agreed.

- 6.4 The team provides a liaison role with other agencies and dealt with:
- 95 pupil tracking requests.
 - 35 Police/Other enforcement agencies requests.
- 6.5 Appendix 1 provides a summary of investigation cases completed and the resultant outcomes.

7. Fraud and Whistleblowing Training provided

- 7.1 The team provides bespoke fraud awareness training to promote fraud messages, highlight fraud risks and encourage suspicions to be reported. The following training sessions have been provided across the council:
- Document verification training to colleagues involved in the clean air zone financial support
 - Fraud awareness training for school headteachers and business managers.
 - Conflicts of Interest and how to manage them for Procurement team members (Managers and staff).
 - Whistleblowing update for the Council's Leadership Forum and Social Care teams.
 - Various sessions on tenancy fraud as stated in section 3 of this report.

8. Fraud Hub, National Fraud Initiative & other Data Analytics

Fraud Data Hub

- 8.1 The council has subscribed to the Cabinet Offices fraud hub since 2021. The fraud hub enables regular and systematic data matching and provides access to some external datasets for the purpose of identifying and preventing fraud and error. Uploads of the following data sets now scheduled to take place at defined frequencies, and external datasets regularly refreshed:
- Tenants
 - Council Tax Reduction
 - Blue Badge
 - Concessionary Travel Passes
- 8.2 All of the successes from the hub so far have related to the matching of datasets to 'deceased data'. The prompt cancellation of services prevents fraudulent use and the accumulation of a debt to recover.
- 8.3 Working with Admin and Business Support, 1044 concessionary travel passes have been cancelled, where the holder has died. This could prevent fraudulent misuse and save on the cost of unnecessary automatic renewal of these passes. Cabinet Office place a notional fraud saving of £24 for each pass cancelled and prevented from being misused equating to £25k, in this instance.
- 8.4 A further eight cases have been identified where the pass has continued to be used by somebody after the death of the genuine holder. Work is underway to explore the appropriate action in respect of these. It should be noted that this is less than 1% fraud rate.
- 8.5 318 Blue Badges have also been cancelled where the holder has died. This will prevent auto renewal. We are also looking at how this information can be made available to Parking Enforcement Officers, so

that any misuse of cancelled badges can be identified. The estimated saving for these as provided by the Cabinet Office is £183,425.

- 8.6 Recovery of one property where Homes and Landlord Services had not been informed of the death of the tenant. In addition, there were several instances where the death had not been notified to Housing Management and Estates, but the property was occupied by a relative. This enabled officers to assess the position and agree formal succession.

National Fraud Initiative

- 8.7 We have continued to work on the 2021 National Fraud Initiative output and a further £34k of savings have been achieved across Council Tax, Housing Benefits and Payroll. Staff in Local Taxation have just started working on the Council Tax Single Persons Discount output and results will be reported in the year-end report. We are also preparing for the upload of data for the next statutory exercise due in November 2022.
- 8.8 In addition we have recently received output from a pilot exercise of tenant data, run by the NFI. The data has been matched to other data sources including credit reference data and insurance financial data. The pilot has identified 3127 of matches all classed as high risk, which we are now reviewing.

Other Analytics

- 8.9 We are currently working with the School Admissions team to identify persons using a different address to their home address to fraudulently gain access to a preferred school.
- 8.10 A report of tenants who are in care homes has been provided to Homes and Landlord Services to enable consideration of whether any of the properties can be released.
- 8.11 Work is also in progress relating to accounts payable including, bank account changes and payments to bank accounts of Council employees.

9. Counter Fraud Standards, Strategy & Policy

- 9.1 The Fraud, Bribery and Corruption policy and strategy document has been revised. The main changes include:
- A restructure of the document to provide clearer separation between policy and strategy
 - Inclusion of a response plan setting out how BCC has responded in line with the 5 pillars outlined in the Fighting Fraud and Corruption Locally Strategy.
 - A new section on fraud prevention.
- 9.2 The revised policy at **Appendix 2**.

10. Whistleblowing

Statistics

10.1 Internal Audit is responsible for receiving, co-ordinating and ensuring an appropriate response to concerns raised through its whistleblowing process. In some instances, we may also investigate cases particularly regarding allegations of fraud or against senior management.

10.2 Whistleblowing case statistics for 2022/23 to date (20 October 22) are shown below:

Brought forward from 2021/2022	Received in 2022/2023	Closed in 2022/2023	In Progress
7	15	12	10

10.3 Details and outcomes of Whistleblowing cases closed in the year so far are at **Appendix 3**.

10.4 We have provided a session to the 'Leadership Forum' to raise awareness of Whistleblowing arrangements and Management's responsibilities. Also, at the request of the Strategic Commissioning Manager in Adult Care, a session was provided to several employees working in Adult Care services.

10.5 The staff survey results below show some improvement in trust and awareness of the Whistleblowing process. There is more work to be done to improve on that trust and ensure appropriate safeguards are in place to protect colleagues who whistleblow.

Working Environment and Wellbeing – gain understanding of employees' view of their working environment in relation to their wellbeing	2019		2020		2022	
	Total positive	Total negative	Total positive	Total negative	Total positive	Total negative
I feel confident that I can raise issues about poor behaviour or practices and it will be responded to effectively	52%	22%	56%	20%	64%	13%
I am aware of our whistleblowing procedures (new question for 2022)	N/A	N/A	N/A	N/A	82%	8%
I feel confident that I can use our whistleblowing procedures, without risk of detrimental treatment, if I suspect wrongdoing within the council (new question for 2020)	N/A	N/A	49%	15%	58%	13%

11. Benefits of Counter Fraud Activity

11.1 Counter-fraud activity can result in financial benefits being identified for the Council. The following table provides a summary of all financial benefits and the areas where this has occurred this year to date from across the Council:

Fraud Area	Recoverable £	Notional £ (Note iv)	Weekly Cost Avoidance £	Other Cost Avoidance	Costs/ Fines/ Penalties	Notes
Tenancy Fraud Investigation	50,279	1,210,320	335			(i)
NFI Main Exercise	32,571				1000	
NFI Single Persons Discount	1081					(iii)
Fraud Hub		301,481				
Benefit Fraud (DWP)	76,000		473			
Council Tax Reduction	15,989					
Corporate Fraud	30,828		35	16,544		(ii)
Total	206,748	1,511,801	843	16,544	1000	

Notes:

- (i) Council property recovered = £93,000
- (ii) Avoided payment for school equipment, council tax identified as due, and monies lost due to employee fraud
- (iii) Review of output undertaken by Local Taxation team
- (iv) Notional saving is an estimate of the loss to the organisation had the fraud not been found. It takes account of various criteria dependent on the type of fraud (ie an estimate of average length of a fraud in the area, the value). The Cabinet Office have produced a set of standard values and we have used these in most instances.

12. Resources

- 12.1 The counter fraud and investigation team are well resourced with a team of 9 FTE offering different skills. The team's data analyst has moved to the central 'Data and Insights' team under the 'Common Activities programme' but continues to work in the fraud investigation area, currently.
- 12.2 A much improved case management system has been implemented. This provides much easier management information, dashboards for managing caseloads and tasks and an automated fraud referral facility.

13. 2022/2023 Priorities

- 13.1 Priorities for the remainder of the year include:

- Using international fraud awareness week to raise awareness of key issues around fraud and whistleblowing.
- Continue to develop the Whistleblowing process in line with best practice and the results of the Protect benchmark assessment tool.
- Delivery of tenancy fraud work including proactive exercises.
- Further development of the fraud hub including encouraging other Local Authorities to join up.
- Providing a professional and timely fraud investigation service.
- Delivering the planned programme of proactive fraud work, including completion of work on Money Laundering, Recruitment and Employee fraud and procurement fraud.
- Completing the work on school admissions and the tenancy fraud NFI pilot exercise.

Appendix 1

Internal (employee) cases closed 1st April 2022 to 30th September 2022

Growth and Regeneration

Service Area	Allegation	Outcome
Housing and Landlord Services	Undeclared conflict of interest in relation to a procurement exercise	Disciplinary hearing resulting in a formal warning.

People/Schools

Service Area	Allegation	Outcome
Primary school	A fraudulent order for school equipment totalling £16,544	The attempt was thwarted and financial loss avoided. The matter was reported to the Police.
Adult Social Care	Employee acting inappropriately with respect to assisting a citizen with financial matters.	Disciplinary hearing resulting in a formal warning.
Adult Social Care	Obtained Council Tax Reduction fraudulently	Disciplinary hearing resulting in a formal warning. A financial penalty administered in accordance with Council Tax Reduction legislation.
Adult Social Care	Obtained Council Tax Reduction fraudulently	Prosecution resulting in a guilty plea. Internal disciplinary is ongoing.



Fraud, Bribery and Corruption Policy and Strategy

Bristol City Council

Resources

[Date published xx/11/2022]

Version 2.00

Version control table

Date	Author	Version	Change Summary
November 2022	Andrea Hobbs	V2.00	Corporate policy template used and format made accessible. Clear split of policy and strategy. Included a section on schools under responsibilities – Policy S4.6. Removal of reference to policy applying to voluntary

			sector organisations-policy S5. Added section on fraud prevention – Strategy S7. Strategy with response and actions aligned to the 5 pillars.
November 2020	Andrea Hobbs	V1.05	
November 2019	Andrea Hobbs	V1.04	
January 2016	Andrea Hobbs	V1.03	
January 2015	Andrea Hobbs	V1.02	
January 2014	Andrea Hobbs	V1.01	
January 2012	Andrea Hobbs	V1.00	

Table 1 Version control table

Policy overview

Policy title Fraud, Bribery and Corruption Policy and Strategy

Summary for the web team Fraud policy, Fraud strategy, Fraud response plan, fraud, bribery, corruption, tackling fraud, fighting fraud, fraud prevention.

Drafted by Andrea Hobbs, Audit Manager, Internal Audit, Resources directorate.

Authorising Head of Service/Director:

Simba Muzarurwi – Chief Internal Auditor, Resources

Denise Murray: Director: Finance and S151 Officer, Resources

This policy is for use by BCC employees, others, BCC partners

Any other BCC teams or partners consulted on development of this policy

None

Has an Equality Impact Assessment form been completed for this policy?

Yes

Was an Equality Impact Assessment required?

No

Date of review by the Equality and Inclusion Team

10/11/2022

Publication date [xx/11/2022]

Date by which this policy must be reviewed 30/11/2023

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1. Introduction

- 1.1 The citizens of Bristol are entitled to expect Bristol City Council to conduct its affairs with integrity, honesty, and openness, and to demand the highest standards of conduct from those working for it. This Fraud and Corruption Policy forms part of the governance arrangements of Bristol City Council. It outlines the City Council's commitment to creating an anti-fraud culture and maintaining high ethical standards in its administration of public funds.

2. Aims and objectives

- 2.1 The purpose of this document is to set out clearly:
- The Council's commitment and approach to tackling fraud, bribery, and corruption.
 - The responsibilities of Members and employees to report any suspicions of fraud
 - The importance of the public, partners, and contractors in tackling fraud.

3. Legal and regulatory requirements

- 3.1 The Accounts and Audit Regulations (England) 2011 require the Council to have appropriate control measures in place to enable the prevention and detection of inaccuracies and fraud.
- 3.2 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements.

4. Roles and responsibilities

4.1 Mayor & Members

- A duty to the citizens of Bristol to protect the Council and public money from any acts of fraud and corruption.
- Compliance with the Code of Conduct for Members, the Council's Constitution, including Financial Regulations and Procurement Regulations, in particular the requirements regarding interests, gifts, and hospitality.
- Avoid situations where there is a potential for a conflict of interest.

- Report fraud, bribery or corruption against the Council, where it is suspected.

4.2 Audit Committee

- Receive regular reports on counter fraud activity, fraud cases, Whistleblowing referrals and information about resources invested in counter fraud work.
- Approve the Anti-Fraud, Bribery and Corruption Strategy and Policy.
- Monitor performance against the policy and strategy.

4.3 Executive Directors and Directors

- Support a strong culture where fraud, bribery and corruption are treated as unacceptable.
- Be aware of and manage the fraud risks in their service area, ensuring adequate internal control.
- Consult Internal Audit to 'fraud-proof' new initiatives and new/changes in policy and strategy.
- Manage possible or perceived conflicts of interest in their service areas, including maintaining a register of interests and gifts and hospitality.

4.4 Director: Finance and Section 151 Officer:

- The Director of Finance and Section 151 Officer has responsibility for the Council's financial arrangements and Internal Audit function, which includes fraud investigation and counter fraud work.

4.5 Chief Internal Auditor (CIA) / Internal Audit

- The CIA has responsibility for the fraud risk policy, strategy and ensuring a robust response to fraud risks, including updating the fraud risk in the corporate risk register.
- Report periodically to Management and Audit Committee on the robustness of the Council's arrangements and emerging fraud risks.
- Undertake an annual programme of audits and report on the effectiveness of the Council's control and governance systems and processes including the effectiveness of management of fraud risks.
- Undertake an annual programme of pro-active fraud work designed to prevent and detect fraud, including awareness training.

- Ensure cases of suspected irregularity, fraud or corruption are effectively investigated and punished by appropriate sanctions in liaison with the Police, Legal Services and HR. (Exception: housing benefit fraud which is the responsibility of the DWP).
- Where possible to recover losses through fraud.
- Maintain a 24-hour Fraud Hotline (0117 9222470) and web referral service.
- Manage the Council's 'whistleblowing procedure' and 'whistleblowing reporting line', including co-ordinating responses to whistleblowing referrals.
- Advise management on procedural improvements required to prevent occurrence or recurrence of fraud.
- Develop and encourage the exchange of information with other agencies for the purposes of preventing and detecting fraud.
- Maintain effective records of fraud investigations to enable greater understanding of fraud risk.
- Undertake periodic reviews of conduct compliance including register of interests and gifts and hospitality of both employees and Members.
- Support and advise Service Managers in protecting the public against known scams in their service areas.

4.6 Schools and other City Council Educational Establishments

- Schools are encouraged to have their own fraud policies which align to Bristol City Council's Fraud Policy.
- School's Financial regulations set out the requirements for the reporting and investigation of fraud in schools.

4.7 Bristol City Council Employees and agency workers

- Be aware of the possibility that fraud, bribery, corruption and theft may exist in the workplace and where suspected, report it.
- Avoid situations where there is a potential for a conflict of interest and declaring these and also any offers of gifts and hospitality.
- Comply with the Council's policies and codes as detailed in paragraph 1.2 of the Policy.

4.8 Human Resources

- Provide timely advice and guidance on Council Policies and procedures during investigations and any disciplinary action
- Ensure recruitment procedures are robust and employees are adequately verified before appointment e.g. eligibility to work, verification of

qualifications and employment history, Disclosure and Barring Service checks where appropriate.

4.9 Director: Legal and Democratic Services (& Monitoring Officer)

- Advise Members of new legislative or procedural requirements regarding conduct and ethical matters.
- Manage Member conduct and compliance including maintaining a register of Members interests, gifts and hospitality declared, and reporting annually to the Audit Committee.
- Take criminal and civil action to ensure appropriate sanctions are applied.
- Provide advice on potential criminal cases.
- Manage and advise on compliance with the Regulations and Investigatory Powers Act.

5. Scope

5.1 This policy applies to:

- Members
- Employees
- Agency staff
- Contractors
- Consultants
- Suppliers
- Service users
- Volunteers working for Bristol City Council

5.2 In addition to the above Bristol City Council expects members of the public to be honest in their dealings with the Council.

6. The policy

The Corporate Leadership Board statement on fraud

Bristol City Council – Corporate Leadership Board are committed to implementing and maintaining the highest standard of corporate and financial governance and ethical behaviour. We recognise that fraud against the council harms the citizens of Bristol, and for that reason, fraud, bribery and corruption against the council will not be tolerated and where suspected, will be investigated. The Council will consider the circumstances of each case of fraud we investigate to ensure we seek a fair and balanced outcome.

The leadership team fully support the investigation of allegations of fraud, the continued development of a robust anti-fraud culture and framework within the Council and a strong stance being taken where fraud is found. This includes sanctions and prosecution where appropriate and seeking recovery of funds and costs.

The diverse nature of services provided by a council mean that there are many areas where we could be a target for fraud. We will ensure we understand the main fraud risks we face and set out how we protect against them in our fraud risk registers.

We the leadership team, with the support of everyone associated with the Council, will strive to ensure that we have robust processes in place to prevent fraud in the first instance and, that we do not forget the risk of fraud in our drive to improve efficiencies in our services.

6.1 The Council will:

- not tolerate fraud or bribery or corruption by its employees, who may face dismissal and/or prosecution.
- ensure it understands the fraud risks it faces and will implement policies and procedures to identify and prevent fraud, bribery and corruption. It will also investigate fraud where it is suspected.
- take appropriate action against those responsible for committing fraud and where possible recover losses incurred.
- ensure it provides training on fraud to its employees to put them in the best position to spot fraud. Training will be provided at induction and periodically throughout their employment.

- investigate fraud fairly, taking an independent and objective view. Officers will be mindful of the Equality Act 2010 and will not let their political or personal views unduly influence their investigation and decisions. Officers will not be affected by improper or undue pressure from any source.
- try not to facilitate fraud against other bodies including tax evasion and money laundering. If through its operation or investigation work, it identifies possible fraud against another organisation, it will report this to the 'appropriate body'.
- will act on alerts of fraud and will help raise awareness of fraud risk and scams that affect the public.
- will work with other public sector organisations and agencies to tackle fraud.

6.2 The Council expects:

- that members and management at all levels will lead by example and ensure high standards of propriety, integrity and accountability and operate within relevant Codes of conduct and policies.
- Members and Senior Officers to recognise the importance of anti-fraud work and to actively promote and support the fight against fraud and report any suspicions of fraud.
- employees and Members to act with integrity and report suspected fraud against Bristol City Council.
- individuals and organisations with whom it contracts, to act with integrity towards the Council.
- members of the public to contribute to the Council's fight against fraud by remaining vigilant and reporting suspected fraud against the Council.
- Concerns to be reported raised when it is believed that one or more of the following may have occurred or are likely to occur:
 - A criminal offence.
 - A failure to comply with a statutory or legal obligation.
 - Improper or unauthorised use of public or other official funds, or assets.

6.3 Some key points about fraud

- **There is always going to be fraud**

It is a fact that some individuals will look to make gain where there is opportunity, and organisations need robust processes in place to prevent, detect and respond to fraud and corruption.

- **Finding fraud is a good thing**

If you don't find fraud you can't fight it.

- **There is no one solution**

Addressing fraud needs a holistic response incorporating detection, prevention and redress, underpinned by a strong understanding of risk. It also requires cooperation between organisations under a spirit of collaboration.

- **Fraud and corruption are ever changing**

Fraud, and counter fraud practices, evolve very quickly and organisations must be agile and change their approach to deal with these evolutions.

- **Prevention is the most effective way to address fraud and corruption**

Preventing fraud through effective counter fraud practices reduces the loss and reputational damage (although this can be difficult to measure). It also requires less resources than an approach focused on detection and recovery.

7. Equalities and Diversity statement

- 7.1 We will make sure that this policy is applied fairly and consistently to all our citizens/service users/residents. We will not directly or indirectly discriminate against any person or group of people. We will act sensitively towards the diverse needs of individuals and communities and we will take positive action to reduce discrimination and harassment.
- 7.2 An Equalities Impact Assessment has been carried out and agreed by the Equalities Team.
- 7.3 Where Bristol City Council is aware that a person to whom this policy applies is vulnerable, it will consider that person's vulnerabilities when applying this policy. This may include, but is not limited to, considering whether extra advice and assistance needs to be provided, liaising with agencies involved

with the care and/or support of that person (where known) and referring that person to agencies and/or BCC departments who may be able to support or assist that person.

8. Monitoring and evaluation

- 8.1 The arrangements set out in this policy will be reviewed annually to ensure the Council remains resilient to the fraud threat.

9. Related policies and information sources

Other relevant policies:

- Anti-Money Laundering Policy and Guidance
- Whistleblowing Procedure
- Regulation of Investigatory Powers Act Policy and Procedures
- Members' Code of Conduct
- Employees Code of Conduct
- Financial Regulations
- Procurement Regulations
- Bristol City Council Enforcement Policy

Information sources:

- Fighting fraud and corruption locally (A strategy for the 2020s. A response to economic crime and fraud)
- GovS 013: Counter Fraud -
- Management of counter fraud, bribery and corruption activity (V2.0 August 2021)

Fraud Strategy

1. Local Government - Fighting Fraud & Corruption Locally Strategy

- 1.1 The Council's approach to tackling fraud will be based on the 5 Pillars as set out in the Fighting Fraud and Corruption Locally Strategy (2020) (the blue-print for tackling fraud in Local Government) which also aligns to the Government Public Sector fraud standards.

Pillar	Required	BCC's Response	Further Planned action
Govern	Robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.	Biennial report to CLB and Audit Committee on fraud work, cases, and resources. Fraud and Whistleblowing policy published, reviewed periodically and presented to CLB and Audit Committee	Targeted training on fraud, Whistleblowing in key fraud risk areas. Improve understanding of Whistleblowing. Look at how employees who Whistleblow can be better supported.
Acknowledge	Understand and assess our fraud risks for ongoing operations, new initiatives and projects. Commit the right support and tackling fraud and corruption. Demonstrate a robust anti-fraud response.	An adequately resourced counter fraud team. Mechanisms for the public, employees and contractors to report fraud. Mandatory fraud training for all employees including how to report suspicions.	Wider consideration of risks by service areas.

	Communicate risks to those charged with Governance.	Fraud acknowledged in Corporate Risk register.	
Prevent	<p>Make best use of information and technology.</p> <p>Enhance fraud controls and processes.</p> <p>Develop an effective anti-fraud culture.</p> <p>Communicate activity and successes.</p>	<p>Implementation of fraud hub enabling early cancellation of services where service user deceased and flagging of other inconsistencies between Council data and external data.</p> <p>Use of IDIS software to check right to buy applications.</p> <p>Fraud prevention reviews in areas of risk (ie Personal Budgets, Recruitment).</p> <p>Reviews of the effectiveness of specific fraud prevention controls (ie Declarations of interest and hospitality registers)</p>	<p>Bring on board other Local Authorities into a regional hub.</p> <p>Establish a system to ensure 'fraud proofing' when systems change and new processes introduced.</p> <p>Wider use of data analytics to detect fraud.</p>
Pursue	<p>Prioritise fraud recovery and use of civil sanctions.</p> <p>Develop capability and capacity to punish offenders.</p> <p>Collaborate across geographical and sectoral boundaries.</p> <p>Learn lessons.</p>	<p>Investigation of referrals.</p> <p>Participation in National Fraud Initiative data matching exercises.</p> <p>Partaking in pilot exercises run by the Cabinet Office and other bodies.</p> <p>Internal data matching exercises.</p> <p>Pursuit recovery and costs where possible.</p>	<p>Exploring new areas for fraud work:</p> <ul style="list-style-type: none"> • School admission fraud • Competitions and Markets Authority – price rigging tool. • Procurement • Tenancy fraud

Protecting itself and its residents	<p>Recognise the harm that fraud can cause in the community.</p> <p>Protect itself and its residents from fraud.</p>	<p>Publicity for Fraud awareness week usually includes some advice to public on scams.</p> <p>Specific National Anti-Fraud Network alerts are shared with the public when relevant.</p> <p>Trading Standards provide advice guidance</p>	<p>Engage with other services to understand what activity is taking place to protect Bristol residents from fraud.</p>

2. Reporting Fraud

- 2.1 The aim is to prevent fraud at the outset; however, despite best attempts to prevent, determined fraudsters may succeed.
- 2.2 If fraud, bribery or corruption is suspected, it should be reported without delay to a line manager or other senior officer, or to Internal Audit.
- 2.3 Information can be reported via the fraud hot-line or using the council's fraud referral form on the web site. This can be done anonymously if required.
- 2.4 Employees and contractors can report fraud through the Whistleblowing process.
- 2.5 Allegations re schools should be reported initially to the Chair of Governors of the school or, if this is not appropriate, the Director of Education and Skills.
- 2.6 The investigation process will follow the procedure set out in Internal Audit's Investigation Protocol.
- 2.7. All allegations will be taken seriously and where there is evidence which supports the allegation, this will be fully investigated. Police will be involved where appropriate.

2.8 Updates on progress will be provided to Managers where investigations have been commissioned internally. Updates cannot generally be provided to the public for reasons of confidentiality and updates to internal Whistle-blowers will be limited in detail.

3. Useful contacts for reporting fraud

3.1 Useful contact information for reporting fraud:

Chief Internal Auditor,
Simba.Muzarurwi@bristol.gov.uk, 0117 35 21475

Fraud Referrals – External Web form or 24hour public fraud Hotline. (Callers leaving their contact details can assist investigations but allegations can also be made anonymously).
[Reporting Fraud Form](#), 0117 9222470

Whistleblowing reporting – web referral form and 24 hour hotline (for internal employees and contractors to report any concerns including suspected fraud)
[Whistleblowing form](#), 0117 3521882

Protect (formerly Public Concern at Work) which is an external body which may be able to give free and independent advice on how to proceed. 020 74046609

4. Investigation of Fraud

4.1 The investigation of fraud, bribery and corruption is a complex and specialist area and will usually be undertaken by staff in Internal Audit or, for less complicated cases, managers, under advice from Internal Audit.

- 4.2 To facilitate audit work and investigations, Internal Audit staff are accorded rights, by the Accounts and Audit Regulations (England) 2015, to access all necessary documents, records, information and explanations from any member of staff. These access rights are confirmed in Financial Regulations.
- 4.3 The investigation process is set out in the Investigations Protocol also available on the council's web pages.
- 4.4 The Investigation Protocol is designed to ensure that Internal Audit:
 - Applies a consistent approach.
 - Assigns appropriately experienced staff to investigate fraud depending on the type and nature of the fraud.
 - Maintains records of all fraud experienced to inform an assessment of the Council's fraud risks.

5. Actions Taken When Fraud is identified

- 5.1 Disciplinary, civil and criminal sanctions will be used, where appropriate, in order to deter future fraud and to recover losses.
- 5.2 Fraud, bribery, corruption, theft and the failure to disclose knowledge or suspicion of money laundering by Members or staff will be regarded as gross misconduct. Disciplinary action will be taken against staff, and Members' misconduct will be dealt with by an independent person and the Values and Ethics Sub Committee.
- 5.3 One option available to the Council is criminal prosecution. The decision to refer cases for prosecution will not be taken lightly and may involve Audit Management, Legal Services, and Directorate Management.
- 5.4 The ultimate decision on prosecution will be taken by the prosecuting body which in most cases will be the Council or the Crown Prosecution Service. A Financial Investigator and/or the Police will be used to assist in cases where additional powers are required to secure evidence, recover funds or where the matter cannot be fully pursued in-house.
- 5.5 In determining whether to prosecute each case will be considered on its own facts and merits.
- 5.6 Where necessary, the Council will work in co-operation with other organisations such as the Police, the Department for Work and Pensions, the Home Office, the Cabinet Office, Her Majesty's Revenue and Customs and other Local Authorities.

- 5.7 When considering a case for prosecution it is generally accepted that there are two “tests” to be applied – the evidential test and the public interest test. These are set out in The Code for Crown Prosecutors.
- Evidential Stage Test - Prosecutors must be satisfied that there is sufficient evidence to provide a realistic prospect of conviction against each suspect on each charge. A case will not go forward for prosecution if it fails this test.
 - Public Interest Test - A prosecution will usually take place unless the prosecutor is sure that there are public interest factors tending against prosecution which outweigh those in favour of prosecution, or is satisfied that the public interest may be properly served by offering the offender the opportunity to have the matter dealt with by an out-of-court disposal.
- 5.8 All avenues for recovering losses will be considered, including confiscation under the proceeds of crime act, civil claims, recovery from accrued pensions, insurance and recovery of costs.
- 5.9 Publicity will be used as a deterrent and circulation of case reports outcomes and lessons learned will be used where appropriate. Public statements and press releases will be arranged with the Council's External Communications Team.
- 5.10 Conclusion of an investigation will in many instances result in recommendations to improve control and prevent future fraud.

6. Data-matching, analysis, data-sharing and technology

- 6.1 The Council will use information provided by employees, service users, Members, and suppliers in the prevention and detection of fraud. Data matching and analysis exercises are undertaken, both internally, regionally and nationally to facilitate the investigation of fraud.
- 6.2 The Council will use technology to prevent and identify fraud and to manage investigations and will continually explore improvements.
- 6.3 All uses of data will adhere to Data Protection legislation, and have regard to privacy, confidentiality and security.

7. Fraud Prevention

- 7.1 It is much more effective to prevent fraud in the first instance and the Council will use risk assessments to determine the likelihood and impact of fraud and how to prevent risks from materialising. Fraud risk registers will be maintained covering the key fraud risk areas as detailed below and any new emerging fraud risks. Fraud risk registers currently cover the following fraud risk areas:
- Social care
 - Procurement
 - Social Housing
 - Benefits
 - Council Tax
 - Blue Badge and Concessionary travel
 - National Non-Domestic Rates
 - Employment
 - Treasury management
- 7.2 The Counter Fraud team will support service areas in embedding fraud prevention measures in systems, processes.
- 7.3 The planned work programme of the Counter Fraud team will include one or more fraud prevention reviews annually.
- 7.4 Data and technology will be utilised to prevent fraud.

8. Legislative changes

- 8.1 The organisation will keep abreast of relevant legislation and will utilise appropriate legislation in the pursuit of fraud, bringing fraudsters to account and seeking redress and recovery.

Whistleblowing cases closed 1st April 2022 to 20th October 2022

Growth & Regeneration

Service Area	Allegation	Outcome
Natural and Marine Environment	Anonymous report that an employee is channelling work to a friend without going through the correct process.	Corruption not established but the service area has now introduced a new filing system and a more structured approach to record keeping particularly in relation to raising orders and paying invoices. All employees working in this service area have received additional training on how to procure work and have completed fraud awareness training.
Housing Management & Estates	Failure by management to address Health & Safety concerns at a City Council owned block of flats	After a further meeting with management the 'whistleblower' is satisfied that their concerns are being taken seriously and that management action will follow.
Traffic & Highways Maintenance	Anonymous report that an employee had abused his position of trust within the City Council by unfairly getting jobs for three family members.	Allegation found to be unsubstantiated. Following enquiries, the employee has completed a new Code of Conduct Declaration declaring his relationship with his family members.
Housing Management & Estates	Failure by management to recognise and address the negative impact on the mental health of Housing Officer caused by the additional work they are expected to carry out.	Unions have raised this issue with Housing & Landlord Services, and it now forms part of an employment dispute.
Housing Management & Estates	Failure by Housing & Landlord Services to acknowledge and observe ethical standards of behaviour in its dealings with Bristol County Court.	This allegation seemed to relate to one specific incident in which a City Council employee was alleged to have either misled the County Court or committed a data breach. Based on available information no conclusion could be drawn as to whether the court had actually been misled.
Business Innovation	The correct process is not being followed in relation to the allocation of work to contractors under the terms of the 'Removal of Asbestos Framework'.	Concern found to be unsubstantiated.

Resources

Service Area	Allegation	Outcome
Legal Services	Allegation of differing treatment of a service user in a racially minoritised group, to the treatment of a white service user.	Allegation found to be unsubstantiated.
Procurement & Contract Management	Employee has an undeclared 'conflict of interest' with an organisation with which the City Council has a contract. Fraud and undue influence by the employee also suspected.	No evidence of corruption or undue influence has been established. However, a perception was held by some contractors and some City Council colleagues that the employee had a conflict of interest. Appropriate action has been taken to address the perceived conflicts of interest.
Human Resources	Failure by Human Resources to follow ACAS guidance on good practice when handling grievances submitted by City Council employees.	The process complied with existing BCC policy. Human Resources have however agreed to amend the Code of Conduct for Investigations and the Grievance Resolution Policy in line with the latest ACAS good practice guidance.

Adults & Communities

Service Area	Allegation	Outcome
Intermediate Care, Reablement & Regulated Services	Anonymous report that two members of staff, employed at a City Council run care home, are bullying an unnamed junior member of staff.	Matter referred to Intermediate Care, Reablement & Regulated Services Management and to Adult Safeguarding

Children & Education

Service Area	Allegation	Outcome
Safeguarding & Area Services	Anonymous report that a City Council employee had breached 'lockdown regulations' by organising and attending two gatherings on Bristol City Council premises.	This had been reported previously but was reported again when the Central Government 'party-gate' issues emerged. An earlier inspection by Heath and Safety had concluded that the site was operating in accordance with regulations at the time.
Permanency & Specialist Services	Concerns about how employees are being managed (no further detail provided).	Following further dialogue with management the 'whistleblower' is satisfied that their concerns are being addressed.

Schools

Service Area	Allegation	Outcome
School	Multiple management failings by a School Leadership Team including bullying and harassment of staff, the promotion of 'favoured staff' and failing to provide adequate support to families.	Following an investigation two members of the School Leadership Team resigned. The findings in this case have also been referred to the Teaching Regulation Agency which has responsibility for the regulation of the teaching profession.

Audit Committee

21st November 2022



Report of: Chair of Audit Committee

Title: Audit Committees Half Yearly Report to Full Council - Draft

Ward: N/A

Officer Presenting Report: Simba Muzarurwi, Chief Internal Auditor

Recommendations

The Committee consider and approve their half yearly report to Full Council.
The Committee considers any further training needs of its members.

Summary

The report provides a summary of key matters arising from the work of the Audit Committee this year to date which should be highlighted to Full Council. The report is due to be considered by Full Council at their meeting on 13th December 2022.

The significant issues in the report are:

- Key areas to highlight to Full Council from the work of the Committee – Section 2 of the attached report.



Policy

1. Audit Committee Terms of Reference.

Consultation

2. **Internal**
Audit Committee Members
3. **External**
None

Context**Audit Committee Half Year Report to Full Council:**

4. In line with the requirements of their Terms of Reference, the Audit Committee provides both an Annual Report and half year report to Full Council. The purpose of these reports is to highlight to Full Council key issues arising from the Committee's work in relation to the control, risk and governance arrangements at the Council. A half year report to Full Council has been drafted on behalf of the Committee and is attached at Appendix A.
5. The report references the Committee's own review of effectiveness and identifies that the Committee is considering the need for further training and development. Given its wide remit covering many areas training can be arranged for the Committee. Consistent with the Committee's terms of reference, the following are some of the areas for further development.
 - Risk Management
 - Governance including companies, partnerships and collaborations
 - Value for Money
 - Fraud & Corruption
 - Financial reporting and governance
 - Assurance framework
 - Pension Fund
 - Treasury Management
 - Ethics and Standards
 - Capital Project Management
 - IT Governance
 - Cyber Risk
 - Internal Audit
 - External Audit

The Committee will need to identify from the list the development areas that need to be prioritised in the next 12 months. Following that the scope and providers of the training will be determined and agreed with the Committee.

6. In addition, since Committee members met to complete their effectiveness review, CIPFA (The Chartered Institute of Public Finance and Accountancy) have issued new practical guidance for Audit Committee members. This is currently being reviewed. The Chief Internal Auditor will

work with the Committee to ensure that the main principles of the new guidance are adopted as appropriate and incorporated into the development plan that resulted from the Committee's review of their effectiveness.

Proposal

7. Committee members review the draft half year report to Full Council to ensure it reflects the issues they feel should be brought to Full Council attention at this time. The Committee approve the report for submission subject to any amendments required.
8. Members review the list of areas for potential training and determine the training needs for Committee members.

Other Options Considered

9. None

Risk Assessment

10. The assurances provided by an effective Audit Committee to Full Council are a key part of the Council's governance framework. This report highlights potential areas where assurances require further monitoring by Audit Committee and improvement actions that will enhance the effectiveness of the Audit Committee.

Public Sector Equality Duties

- 8a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following "protected characteristics": age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:
 - i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.
 - ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --
 - remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);

- encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

- iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
 - tackle prejudice; and
 - promote understanding.

8b) No equality impact anticipated from this report

Legal and Resource Implications

Legal

N/A

Financial

(a) Revenue – N/A

(b) Capital – N/A

Land/Property N/A

Human Resources N/A

Appendices:

Appendix A – Draft Audit Committee Half Year Report to Full Council.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

Audit Committee Papers.

CIPFA – Audit Committees Practical Guidance.



BRISTOL CITY COUNCIL

AUDIT COMMITTEE

**Half Year Update to Full Council
2022-23**

1. Introduction and Context:

- 1.1 The purpose of the Audit Committee is to provide independent assurance on the adequacy of the risk management framework, internal control environment and the integrity of the financial reporting and annual governance processes. It is the primary means by which Full Council obtains assurance that governance, risk management and control systems are in place and effective. The Audit Committee's responsibilities are additional and supportive to those of the Section 151 Officer.
- 1.2 The Value and Ethics Committee is a sub-committee of the Audit Committee set up to deal with matters relating to the ethical framework affecting Members of the council, their behaviour and compliance with the Member Code of Conduct.
- 1.3 This report provides details of the Committee's and sub-committee's work this year to date and provides early highlights to Full Council of key issues that require monitoring by or support from the Committee to engender improvements to the internal control, governance and risk management arrangements across the Council.

2. Key Issues

- 2.1 Details of the reports considered to date by the Committee are provided in Appendix 1. Key messages to bring to Full Council's attention from this work to date are included below:

Control Environment:

- 2.2 The Chief Internal Auditor has reported 'Reasonable Assurance' that in 2021/22 the Council's systems of internal control, governance and risk management were adequate and operating effectively. In noting this opinion, the Chief Internal Auditor acknowledged that the lasting impact of covid and other global and national events such as the Russia-Ukraine War and Brexit have created significant risk for the Council. Prioritising governance, internal control and risk management improvements to support delivery of the council's ambitions will be important to maintain this opinion. It was further noted that as an ambitious organisation, the Council inevitably has many priorities and transformation initiatives, but a robust prioritisation process is imperative so that the organisation only focuses on priorities that have sufficient resources to support them. A number of areas noted below were identified as requiring improvement by the Chief Internal Auditor. A core part of the Committee's work will include monitoring improvements in these areas:

- Information Technology including IT Resilience
- Compliance with Procurement Rules
- Risk Management
- Housing Management systems and processes
- Management of Conflicts of Interest
- Adult Social Care Direct Payments
- Special Educational Needs and Disability (SEND)
- Delivery of financial savings

- 2.3 Where the Chief Internal Auditor provides limited or no assurance in areas, the Committee receives updates from management about actions to improve control arrangements. These are monitored by the Committee. The Chief Internal Auditor advises that satisfactory progress is being made in the implementation of improvement actions resulting from these reviews. It is important to ensure priority continues to be given to improvements identified.

Governance:

- 2.4 The Committee contributed to the review of the 2021/22 Annual Governance Statement to ensure it was reflective of the Council's governance, risk management and internal control arrangements and identifies actions to improve where appropriate. The statement concluded that governance arrangements are generally working as expected. However, three significant governance issues were identified in the statement and progress against these arrangements will again be monitored by the Committee. In summary the issues are:
- **Dedicated Schools Grant (DSG).** The in-year forecast deficit on the DSG is significant which when added to the brought forward balance means that the DSG was carrying a year end deficit of £24.6m. The main financial challenge continues to be the High Needs block, resulting from increases in EHCP assessments and need.
 - **Procurement Breaches.** The number of breaches of the Council's procurement rules during 2021/22 significantly increased from 2020/21. The 20/21 Value for Money report by the Council's external auditors has recommended urgent action be taken to address the high level of breaches. When the procurement rules are breached, there is an increased risk that the Council enters into a contract which is not Best Value and/or is not the best way of achieving organisational objectives. Breaches also reduce transparency and fairness of decision making, which can increase the risk of fraud, conflicts of interest and reputational damage.
 - **Savings.** The Council continues to face challenges in delivering required savings. Out of the £11.7m of savings planned for delivery within the 2021/22 budget only 46% was achieved on a recurrent basis. If these savings continue to be unachievable in the future the Council will need to identify other ways of delivering these savings which could result in significant impact on service delivery.
- 2.5 In addition, the Committee has reviewed the Annual Report of the Local Government and Social Care Ombudsman for 2021/22. No public reports had been made but the report detailed a number of cases which were upheld by the Ombudsman. In line with requirements, this report was referred to Full Council.
- 2.6 Regular reports from Internal Audit's Counter-Fraud Team demonstrate that fraud risks are understood and mitigated by a programme of fraud prevention activities. Where fraud occurs, it is investigated with appropriate action taken against offenders. The team prioritise whistleblowing referrals and improving arrangements to encourage people to report concerns.
- Risk Management:**
- 2.7 The Committee continues to monitor the development and maturity of the Council's risk management arrangements and has been provided with a detailed briefing in respect of the following risk related areas:
- Risk management processes and reporting procedures operated by the Council
 - ICT and Cyber related risks and how these are being managed. This is an area that the Committee is keen to monitor through the year and further reports are scheduled to be received by the Committee.
 - Procurement compliance risks which again, will be monitored by the Committee to ensure improvement is achieved.
- 2.8 In addition to having oversight of the Quarterly Risk Report in line with existing practice, officers are facilitating more detailed examination of particular risks chosen by committee members in advance of each meeting

Value for Money:

- 2.9 The Committee received an Interim Report from the External Auditors on their Annual Report on the Council. Their work did not conclude there to be any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources in respect of 2020/21, but a number of improvement recommendations were made. Many of those are in areas included within this report. The Committee will monitor actions taken in response to their recommended improvements.

3. Audit Committee Effectiveness

- 3.1 The Committee annually undertakes a review of its effectiveness. Details of the most recent review and the actions resulting were included in our Annual Report to Full Council. In addition, the Committee is working to review further training needs of its members.
- 3.2 The Audit Committee would like to extend its continued thanks and appreciation to all the officers who have contributed reports and responded to questions from committee members. Audit Committee obviously has a vital role to play and this is greatly enhanced by a high standard of input from all those who contribute.

Appendix 1:

Reports Considered by Audit Committee During 2022/23 to date:

Audit Committee	
Meeting Date	Papers Considered
27 th June 2022	<ul style="list-style-type: none"> • External Auditors Interim Annual Report on Bristol City Council 2020/21. • Internal Audit Annual Report 2021/22 • Fraud Annual Report 2021/22 • Draft Annual Governance Statement 2021/22 • Q4 2021/22 Corporate Risk Report Update
26 th July 2022	<ul style="list-style-type: none"> • Draft Financial Statements 2021/22 • Estimated External Audit Fees 2020/21 • Bristol Holding Limited Audit & Risk Committee Annual Assurance Report 2021/22. • Q1 - Strategic Risk Report • Internal Audit Exception Reporting including Management Action Tracking • Terms of Reference for the External Review of Bristol City Council Internal Audit Service
26 th September 2022	<ul style="list-style-type: none"> • External Audit Plan 2021/22 - Draft • Treasury Management Annual Report 2021/22 • Risk Management Annual Report 2021/22 • Annual Report of Local Government and Social Care Ombudsman 2021/22 • Internal Audit Activity Report • Audit Committee Annual Report to Full Council • Q2 Corporate risk report
Values and Ethics (Sub) Committee	
27 th June 2022	<ul style="list-style-type: none"> • Members Development Update Report • Summary of Complaints Against Councillors (March 2021 – May 2022)



Audit Committee

21st November 2022

Report of: Chief Internal Auditor

Title: Internal Audit Quality Assurance Improvement Programme

Ward: N/A

Officer Presenting Report: Simba Muzarurwi – Chief Internal Auditor

Contact Telephone Number: 07768476966

Recommendation

The Audit Committee to approve:

- (i) the Internal Audit Quality Assurance and Improvement Programme (QAIP) – Appendix 1;
- (ii) the Internal Audit Charter – Appendix 2; and
- (iii) the Internal Audit Strategy – Appendix 3.

Summary

In accordance with the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to maintain a QAIP and report against it in its Annual Report to the Committee. The QAIP must cover all aspects of the internal audit activity which must include both internal and external assessments. The QAIP is underpinned by the Internal Audit Charter which sets out how the Service will comply with the PSIAS and its place within the organisation and the Internal Audit Strategy that sets out the framework for internal audit activities at the Council.

This QAIP, Internal Audit Charter and Internal Audit Strategy are presented to the Audit Committee for consideration and approval, as required by the PSIAS.

Significant Matters Arising:

- The QAIP includes the update on the implementation of recommendations arising from the previous report and identifies new improvement actions.
- The Internal Audit Charter and Internal Audit Strategy reflect changes from the documents that were reviewed and approved by the Committee in November 2021.



1. Policy

The PSIAS require the Internal Audit service within the organisation to set out its quality assurance arrangements in the form of a QAIP and to define its role, responsibilities and authority in the form of a Charter, which includes an explanation of the way in which the internal audit function will comply with the PSIAS. The monitoring of performance against the QAIP and adherence to the Charter must be assessed and reported to the Audit Committee on an annual basis.

2. Consultation

Internal – CLB including S151 Officer, Cabinet Member for Governance, Resources and Finance.

External – N/A

3. Context**3.1 The PSIAS sets out the requirement for a QAIP:**

“The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity which must include both internal and external assessments.”

3.2 The QAIP sets out how this process will work. Reporting against the QAIP will be included in the Annual Internal Audit report.**3.3 The Charter defines the purpose, authority, scope and responsibility of the Internal Audit service and is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). It also meets the PSIAS requirement for Internal Audit’s risk-based plan to incorporate or link to a strategic or high-level statement.****3.4 It is the responsibility of the Chief Internal Auditor to ensure that the Internal Audit Charter is reviewed each year in order to confirm the Service’s compliance with the requirement as detailed in the Charter, as well as to maintain the Charter’s relevance to both the Internal Audit Service and the organisation as a whole. Following the review, amendments were made to clearly clarify arrangements relating to:**

- right of access to records, properties, officers etc;
- dealing with the self-review risk associated with the Chief Internal Auditor’s responsibility for managing the Council’s whistleblowing;
- following up actions using Pentana Audit;
- role of Internal Audit in National Fraud Initiative exercises; and
- the Seven Principles of Public Life.

3.5 The Internal Audit Strategy outlines how internal audit activities will be undertaken within the Council and defines the key principles and approach to be used. It further enhances the processes that form the basis for the annual opinion which informs the Council’s Annual

Governance Statement and seeks to maximise collaborative working opportunities with other assurance providers such as external auditors, external assessment teams and regulatory compliance teams.

The Strategy has been informed by various guidance from the CIIA and CIPFA. For easy of reference the recent publication by CIPFA titled *Internal Audit: Untapped Potential* is Appendix 4 of this report. The Strategy is underpinned by the following principles:

- Use of strategic partner
- Partnership and collaborative working with other neighbouring councils
- Increased use of analytics
- Agile auditing and reporting
- Succession planning and building resilience in the team
- Increased reliance on continuous auditing and continuous monitoring methodologies
- Increased use of other assurances – more investment in assurance mapping and reporting

3.6 The Committee last approved the QAIP, Charter and Internal Audit Strategy in November 2021.

4. Proposal

4.1 Consistent with the PSIAS, the Committee consider and approve the updated QAIP, Internal Charter and Internal Audit Strategy. This also gives the Committee the opportunity to understand how the internal audit service is governed and delivered within the Council.

5. Other Options Considered – N/A

6. Risk Assessment

The work of Internal Audit minimises the risk of failures in the Council's internal control, risk management and governance arrangements, reduces fraud and other losses and increases the potential for prevention and detection of such issues. The PSIAS provide for an effective independent and objective Internal Audit Service, ensuring a good standard of service to the organisation, whilst at the same time providing the Internal Audit Service with wider support in terms of maintaining its independence and freedom from influence.

Public Sector Equality Duties

No Equality Impact anticipated from this report.

Legal and Resource Implications

Legal – N/A

Financial – N/A

Land – N/A

Personnel – N/A

Appendices:

Appendix 1 – Internal Audit Quality Assurance and Improvement Programme

Appendix 2 – Internal Audit Charter

Appendix 3 – Internal Audit Strategy

Appendix 4 – Chartered Institute of Public Finance & Accountancy: Internal Audit: Untapped Potential Publication

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

Public Sector Internal Audit Standards.

CIPFA: Internal Audit: Untapped Potential



Internal Audit Quality Assurance and Improvement Programme (QAIP)

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1 Introduction

1.1 The Standards for proper practices in relation to internal audit are laid down in the Public Sector Internal Audit Standards (PSIAS). The PSIAS set out the ethical, attribute and performance standards for an effective Internal Audit service. Compliance with the standards should be assessed internally and subject to periodic, independent external quality assessment. The PSIAS requires that Internal Audit sets out its quality assurance arrangements in the form of a Quality Assurance Improvement Plan (QAIP).

1.2 The PSIAS sets out the requirement for a QAIP:

“The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity which must include both internal and external assessments.”

1.3 The QAIP is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Statement on the role of the Head of Internal Audit;
- Operates in an effective and efficient manner; and
- Is perceived by stakeholders as adding value and continually improving its operations.

1.4 Internal Audit's QAIP covers all aspects of Internal Audit activity in accordance with the PSIAS Standard 1300 (Quality Assurance and Improvement Programme), including:

- Monitoring the Internal Audit activity to ensure it operates in an effective and efficient manner (1300);
- Ensuring compliance with the PSIAS' Definition of Internal Auditing and Code of Ethics (1300);
- Helping the Internal Audit activity add value and improve organisational operations (1300);
- Undertaking both periodic and on-going internal assessments (1311); and
- Commissioning an external assessment to the Audit Committee at least once every five years, the results of which are communicated to the Audit Committee (1312 and 1320).

- 1.5 The Chief Internal Auditor is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consulting.

2 Internal Assessments

- 2.1 In accordance with the PSIAS Standard, internal assessments are undertaken through both on-going and periodic reviews.

On-going Reviews

- 2.2 Continual assessments of quality are undertaken via:
- Effective planning, allocation of audit resources and reporting of activities;
 - Management supervision of all engagements;
 - Structured documented review of working papers and draft reports by Internal Audit Management;
 - Feedback from audit clients obtained through regular audit engagement using the Audit Client Engagement model;
 - Monitoring of key performance targets and annual reporting to the Audit Committee;
 - Monitoring and reporting the implementation of agreed management actions;
 - Regular training for the team;
 - Use of data analytics and audit management software; and
 - Review and approval of complex, and high risk outputs including all limited and no assurance opinions by the Chief Internal Auditor.

Periodic Reviews

- 2.3 The Internal Audit Service operates to a Charter that mandates compliance with relevant professional standards and specifically the definition of Internal Auditing, the Code of Ethics and the PSIAS which is regularly reviewed.
- 2.4 Periodic assessments are designed to evaluate conformance with these standards and are conducted via:
- Quarterly Progress Reports to the Audit Committee which includes progress against the annual plan, reports issued during the period including details of the opinion and summaries of key issues and

outcomes from the work undertaken in the period;

- Annual Satisfaction Surveys to key audit clients and those who interact with the team;
- Annual self-assessment of conformance with PSIAS;
- Annual review of compliance against the requirements of the QAIP, the results of which are reported to senior management and the Audit Committee;
- Feedback from the Section 151 Officer and Chair of the Audit Committee to inform the annual appraisal of the Chief Internal Auditor in accordance with Standard 1100;
- At least annual performance reviews for each Internal Auditor; and
- Regular review of individual auditors' compliance with their continuous professional development requirements.

2.5 Significant areas of non-compliance with PSIAS identified through internal assessment will be reported in the Internal Audit Annual Report and used to inform the Annual Governance Statement.

2.6 Results of internal assessments will be reported to the Audit Committee at least annually. The Chief Internal Auditor will implement appropriate follow-up to any identified actions to ensure continual improvement of the service.

2.7 The Chief Internal Auditor will also periodically identify improvement requirements, for example in respect of audit planning, assurance mapping, audit processes, counter fraud, skills development for the team, audit profile and performance.

3 External Assessments

3.1 Consistent with the PSIAS, an external assessment occurs at least once every five years to ensure continued application of professional standards. The appointment of the External Assessor and scope of the External Assessment for the external assessment is approved by the Audit Committee

3.2 The Peer Review of the service was completed in February 2018 which expressed an opinion about Internal Audit's conformance with the Standards, the Definition of Internal Audit and Code of Ethics including recommendations for improvement.

3.3 The Audit Committee has in the past received a few reports on the implementation of recommendations arising from the Peer Review. The last update was given in November 2021. The update on the residual actions is

given in Appendix A on page 4.

- 3.4 The next external assessment is due in the current financial year and arrangements have been agreed that this will be undertaken by Nottingham City Council. The terms of reference and timing of this assessment was agreed with the Audit Committee in July 2022. The Audit Committee will receive the outcomes from this review in March 2023.

4 Review of the QAIP

- 4.1 The QAIP is reviewed at least annually. Appendix B provides an update on the improvement actions identified in 2021/22 and any new actions.

APPENDIX A

Peer Review Report Observations	Recommendations	Status and November 2022 Update
All auditors do not currently have sufficient knowledge of computer assisted audit techniques. This has arisen as experienced staff have left the services.	Recommendation 7: Identified as part of self-assessment. Training in this area is planned and should be rolled out as appropriate.	The risks associated with the lack of sufficient IT audit knowledge has been successfully mitigated by the collaborative working arrangements with KPMG as our current internal audit strategic partner. One of the key objectives of the arrangements is knowledge transfer between the two teams. Work is ongoing to ensure that this objective is achieved but this will take some time to complete.
<p>The self-assessment identified a non-conformance in respect of the risk based plan taking into consideration the Council's assurance framework. It is acknowledged that a number of attempts have been made to develop an assurance framework for the Council, but this has not been achieved.</p> <p>The PSIAS requires that an assurance mapping exercise is undertaken as part of identifying and determining the approach to using other sources of assurance.</p>	<p>Recommendation 12: Within the Improvement Plan there is an agreed action to progress assurance mapping for the Council.</p> <p>The approach to using other sources of assurance and any work that may be required to place reliance upon those sources should be further developed as part of the assurance mapping exercise.</p>	Assurance mapping is now embedded as part of planning and audit process. Assurance maps are used to inform audit plans.

Appendix B

Quality Assurance and Improvement Programme Action Plan

QAIP Element	Action	November 2022 Update
Professional Proficiency	Appoint Level 7 Internal Audit Professional Apprentices to build capacity and resilience	Completed. Two Level 7 Apprentices started in September 2022.
Follow ups	Automating the process for monitoring and reporting on the implementation of agreed management actions	Completed
Processes	Implement continuous monitoring and continuous auditing methodologies.	Slow progress but starting to see tangible outcomes and this will be a key priority in 2023/24.
Processes	Introduce agile auditing methodologies	In progress - the focus is now on formalising the approach across all audit activities.
Processes	Enhance the use of analytics in completing audits	In progress - we are starting to use analytics and the focus is ensuring that we have a data driven audit process.
Processes	Formalise the process for reporting annual feedback on internal audit performance	New
Professional Proficiency	Explore opportunities for seconding staff in and out of Internal Audit.	New
Professional Proficiency	Explore and enhance partnership arrangements with other local authority audit teams	New



INTERNAL AUDIT CHARTER

1. Introduction:

- 1.1 The Chief Executive as the Head of Paid Service and the Section 151 Officer are responsible for maintaining an effective and appropriately resourced internal audit function, in line with the Accounts and Audit Regulations (2018). The regulations specifically require that *“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance”*.
- 1.2 This Internal Audit Charter defines the purpose, authority, scope and responsibility of the Internal Audit service and is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA).

2. Purpose and mission:

- 2.1 The purpose of the Bristol City Council Internal Audit Service is to provide independent, objective assurance and consulting services designed to add value and improve Bristol City Council's operations.
- 2.2 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The Internal Audit Service helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes consistent with the Bristol City Council Internal Audit Strategy.
- 2.3 The Internal Audit Service will govern itself by adherence to the Public Sector Internal Audit Standards (PSIAS) including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, the Definition of Internal Auditing and the CIPFA Statement on the role of the head of internal audit.
- 2.4 The Chief Internal Auditor will report periodically to senior management and the Audit Committee regarding the Internal Audit Service's conformance to the Code of Ethics and the PSIAS.

3. Authority:

- 3.1 The Chief Internal Auditor will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Director of Finance (Section 151 Officer). The Director of Finance is a Corporate Leadership Board (CLB) member in their own right and these management arrangements meet the PSIAS requirements.

To establish, maintain, and assure that the Internal Audit Service has sufficient authority to fulfil its duties, the Audit Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based internal audit plan.
- Receive communications from the Chief Internal Auditor on the Internal Audit Service's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Chief Internal Auditor.
- Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is inappropriate scope or resource limitations.

3.2 The Chief Internal Auditor will have unrestricted access to, and communicate and interact directly with, the Audit Committee including in private meetings without management present.

3.3 In accordance with the PSIAS internal audit shall have right of access to all:

- records, documents, correspondence, data or information systems, including those of third parties,
- assets including those held on behalf of others,
- personnel,
- premises or land
- information, explanations or assistance as it considers necessary to fulfil its responsibilities from any employee, contractor, supplier, customer, partner
- Senior Management and Statutory Officers, the Mayor, Cabinet and Audit Committee

These rights also apply to organisations which have links with or provide services on behalf of the Council, its group companies and associated partnerships where the Council has a statutory or contractual entitlement to exercise such right. These rights shall be included in all contractual arrangements entered into with such organisations.

3.4 Consistent with the Internal Audit Strategy, the remit of Internal Audit covers the whole of the Council, its companies and other joint working arrangements where the Council is the Accountable Body as well as contract arrangements where the right of audit is included within the contract.

4. Independence and objectivity:

- 4.1 The Chief Internal Auditor will ensure that the Internal Audit Service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content.
- 4.2 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 reports to the Audit Committee, on a regular basis, on the organisational independence of the Internal Audit service.
- 4.3 Internal Audit operates within a framework that allows unrestricted access to senior management and Council, particularly the Mayor, the Chair of the Audit Committee, the Chief Executive and the CLB. The Chief Internal Auditor reports in his/her own name to the CLB and the Audit Committee.
- 4.4 Should the independence or objectivity of the Internal Audit service be impaired in fact or appearance, the Chief Internal Auditor will disclose details of the impairment to the S.151 Officer and / or Chair of the Audit Committee depending upon the nature of the impairment.
- 4.5 When requested to undertake any additional roles / responsibilities outside of Internal Auditing, the Chief Internal Auditor must highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics. The Audit Committee must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.
- 4.6 As far as practicable, Internal Audit does not participate in the day to day operation of any systems without agreement of the Audit Committee. However, in strict emergency situations only, Internal Audit staff may be called upon to carry out operational work. In those instances, those seconded to operational areas will not be assigned to provide audit services to those parts of the organisation for a period of one year from the date they finish the secondment.
- 4.7 Where non-audit work, or consultancy work, is requested or required, the Chief Internal Auditor ensures that there are no conflicts of interest arising from undertaking the non-audit work, or consultancy work and if necessary makes alternative arrangements for internal audit review of any area where such a conflict exists.
- 4.8 Where new colleagues join Internal Audit from a different part of the Council, they do not complete audit work in their previous area of responsibility for a period of at least 1 year.
- 4.9 Internal Audit has responsibility for collating assurances in support of the Council's Annual Governance Statement; for drafting the Statement and for facilitating management review. The Chief Internal Auditor does not have line management responsibility for those staff involved in governance processes and does not consider that the responsibilities in respect of the Annual Governance Statement restrict the ability to report objectively on governance.

- 4.10 Internal Audit manages the Council's whistle-blowing arrangements, including provision of a helpline and, where appropriate investigates instances of suspected or actual fraud, corruption or impropriety. To manage the self-review risk, an independent audit is commissioned every two years with outcomes being reported to the Audit Committee and Corporate Leadership Board.

5. Definitions and Responsibilities of Officers and the Council in Relation to Internal Audit:

For the purpose of this Charter the following definitions apply:

- *The Board* is 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. This includes oversight of the internal audit function and its activity
- *Chief Executive and Head of Paid Service* is also the Executive Director: Growth and Regeneration - who has responsibility for ensuring good governance, risk management and internal control arrangements exist and operate
- *Senior Management is the Corporate Leadership Board (CLB)* - 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 Directorates and Services including the risk of fraud and corruption
- *Section 151 Officer* - is the Director of Finance - the Section 151 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; ensuring there is adequate and effective internal audit service
- *Monitoring Officer* - is the Director of Legal and Democratic Services – responsible for maintaining the Constitution; ensuring lawfulness and fairness of decision making; providing legal advice; and conducting member investigations. As such the Monitoring officer works closely with internal audit on governance matters.

6. Scope of internal audit activities

- 6.1 The scope of internal audit activities which is aligned with the Internal Audit Strategy encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance,

risk management, and control processes for Bristol City Council. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.
- The actions of the Council's members, officers, directors, employees, and contractors are in compliance with the Council's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Bristol City Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

7. Internal Audit Activities:

7.1 Internal Audit Plan

- 7.1.1 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 is adopted.
- 7.1.2 A risk based plan of internal audit work is prepared annually and reviewed quarterly. The plan is derived from a risk assessment which is informed by the views of management, the Council's risk registers, performance management reports and the assurance framework.
- 7.1.3 The audit plan is discussed with the CLB and the Section 151 Officer before review and approval by the Audit Committee. The CLB is 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 are reported to the Audit Committee through the periodic activity reporting process.

7.2 Audit and Assurance Reviews

- 7.2.1 For each audit assignment within the annual audit plan, a 'Terms of Reference' is drawn up and shared with the relevant managers. The Terms of Reference identifies the key risks to the achievement of Council objectives and identifies the scope of the work being carried out.

7.2.2 During the course of the audit, key issues are brought to the attention of the relevant manager to enable them to take corrective action. On completion of the audit, Internal Auditors communicate the results of the audit to the relevant Chief Executive / Director / Executive Director.

7.2.3 The completion of each planned assignment leads to individual reports to Heads of Service and /or Directors of Service and Executive Directors and these may 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, assist the Chief Internal Auditor in providing an overall opinion on the control environment to management for the Annual Governance Statement.

7.3 *Fraud and Irregularity work*

7.3.1 The PSIAS recognise that Internal Audit may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.

7.3.2 Internal Auditors plan and evaluate their work to have a reasonable chance of detecting fraud. However, Internal Audit is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management.

7.3.3 The Council's Anti-Fraud, Bribery and Corruption Policy requires the Chief Internal Auditor to be informed of all suspected or detected fraud. A fraud risk assessment is performed on all suspected or detected fraud which determines whether the irregularity is investigated by Internal Audit or by the relevant directorate with support from Internal Audit where required.

7.3.4 Investigation of fraud and corruption is carried out in compliance with statutory requirements and the fraud investigation protocol, by staff with the necessary skills to do so.

7.3.5 In addition to determining the extent of the fraud, attention is given to correction of any control failures to prevent recurrence of the fraud.

7.3.6 Internal Audit facilitates participation in the National Fraud Initiative, which matches data from Council information systems with information held by other bodies to identify potentially fraudulent activity.

7.3.7 As well as responding to incidents of fraud and corruption, Internal Audit staff maintains 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.

7.4 *Consultancy Reviews as Requested/Required*

7.4.1 Internal Audit provides both statutory and discretionary services. Discretionary services provided by Audit are a form of consultancy. These services may be on

request by management or the Council, or recommended by Internal Audit. Each of these reviews has a clearly defined and agreed Terms of Reference with agreed timescales for completion of the work and agreed reporting format.

- 7.4.2 In addition to planned audit reviews, Internal Audit offer advice on the internal control implications of new systems being implemented across the Council, as well as guidance and advice with regard to transformation projects within the Council.
- 7.4.3 The Chief Internal Auditor ensures that no conflicts of interest arise from undertaking any consultancy work by reviewing the scope of the work to be undertaken and maintaining Internal Audit's independence from management functions.
- 7.4.4 Where significant consultancy reviews are commissioned in year, outside of the approved plan, then Audit Committee approval is sought in advance.

7.5 *External Clients*

- 7.5.1 Internal Audit provides internal audit services and assurances to a number of public sector / quasi-public sector clients including Bristol City Council wholly owned companies, WECA (grant certifications) and Academies.

7.6 *Reporting to the Audit Committee*

- 7.6.1 The Chief Internal Auditor will report periodically to senior management and the Audit Committee regarding:
 - The Internal Audit Service's purpose, authority, and responsibility.
 - The Internal Audit Service's plan and performance relative to its plan.
 - The Internal Audit Service's conformance with The IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
 - Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
 - Results of audit engagements or other activities.
 - Resource requirements.
 - Any response to risk by management that may be unacceptable to the Council.

7.7 *Assurance Mapping*

- 7.7.1 The Chief Internal Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The Internal Audit Service may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Internal Audit Service does not assume management responsibility.

7.7.2 Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

7.8 Reporting; Follow Up and Escalation Procedures:

7.8.1 Following the completion of all audit assignments a draft internal audit report is issued containing an opinion on the level of assurance that can be deemed from the control environment. The report outlines the findings or weaknesses, their causes and the associated risks and implications to the Council. Internal Audit will then engage with the relevant Senior Responsible Officers to agree the appropriate management actions required to address the weaknesses identified.

7.8.2 It is the full responsibility of the relevant Senior Responsible Officers to implement the agreed management actions and senior management are responsible for ensuring that there are appropriate arrangements for monitoring and reporting the progress in the implementation of agreed management actions

7.8.3 Under the escalation element of this procedure, some audits with a no or limited assurance opinion will be subject to re-performance in the following year.

7.8.4 Internal Audit uses the Pentana Audit Management System to monitor and report the implementation of agreed management actions. The progress in the implementation of agreed management actions is reported to the Audit Committee as part of its regular activity reports. Repeated failure to implement the agreed management actions will be reported to CLB and the Audit Committee, who may call the appropriate Senior Responsible Officer to account for the failure to correct the control environment.

7.8.5 The Chief Internal Auditor routinely reports to the Audit Committee providing Activity Reports to every meeting, together with an annual report incorporating details of significant control issues identified by audit work. The annual report provided by the Chief Internal Auditor includes 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.

7.9 Collaboration and Liaison with Other Auditors

7.9.1 The External Auditor has a statutory duty to express an opinion on the 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 seeks to co-ordinate the work of Internal Audit with that of the External Auditor through sharing of plans and quarterly liaison meetings, where appropriate.

7.9.2 The Chief Internal Auditor also liaises with equivalents in neighbouring local authorities where services are shared or delivered jointly. Liaison is also ongoing

with equivalents in Core City Local Authorities and the Local Authority Chief Auditors' Network.

8. Responsibility

8.1 Internal Audit responsibilities:

The responsibilities incumbent on the Internal Audit Service are summarised below:

- Formulation and delivery of an annual Internal Audit plan 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 Council to inform the Annual Governance Statement
- Support of the Section 151 officer in discharging their statutory duties
- 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
- Providing reports to the Audit Committee to enable it to discharge its duties
- Communicating risk and control information to the appropriate officers across the Council, whilst providing expertise and guidance in the matter of risk management
- Facilitating the establishment of assurances in support of the Annual Governance Statement
- Raising awareness of internal control, risk management and governance across the Council
- Undertake ad-hoc audit reviews, as required by senior management.

8.2 Chief Internal Auditor responsibilities

Specifically, the Chief Internal Auditor has the responsibility to:

- Submit, at least annually, to senior management and the Audit Committee a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.

- Review and adjust the internal audit plan, as necessary, in response to changes in Bristol City Council's business, risks, operations, programmes, systems, and controls.
- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the Internal Audit Service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact Bristol City Council are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit Service.
- Ensure adherence to Bristol City Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- Ensure conformance of the Internal Audit Service with the *Standards*.

8.3 *Responsibilities for senior management:*

- Engagement in the Internal Audit planning process – providing insight into high risk areas within the respective directorates
- Nomination of responsible officers for all planned and ad-hoc internal audit reviews
- Timely engagement and clearance of relevant Terms of Reference, Audit queries, Draft and Final reports. Timely being defined as within a two week timeframe unless otherwise defined and/or agreed

- Engagement with the Internal Audit follow-up process, providing evidence of agreed management action implementation as and when implementation is achieved, should this be before a planned follow-up has commenced or after the follow-up has been completed.

9. Code of Ethics

- 9.1 To enhance the environment of trust between Internal Audit and management, all staff involved in the delivery of Internal Audit services must comply with the Code of Ethics laid down in the 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 principles are observed:

Integrity Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. Internal auditors:

- Shall perform their work with honesty, diligence and responsibility;
- Shall observe the law and make disclosures expected by the law and the profession;
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation; and
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

Objectivity Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements. Internal auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Shall not accept anything that may impair or be presumed to impair their professional judgement; and
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Confidentiality Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. Internal auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties; and
- Shall not use information 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 organisation.

Competency Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services. Internal auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills and experience;
- Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing; and
- Shall continually improve their proficiency and effectiveness and quality of their services

9.2 Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life. These are

Principle	Description
Selflessness	Holders of public office should act solely in terms of the public interest.
Integrity	Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationship.
Objectivity	Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
Accountability	Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
Openness	Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
Honesty	Holders of public office should be truthful.
Leadership	Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

- 9.3 Internal Auditors are required to complete a Declaration of Interest every two years consistent with the Council's policy to ensure that any interests are known by management and safeguards can be put in place as required. Additionally, they are required to consider any potential conflicts of interest at the start of every audit assignment.

10. Quality assurance and improvement programme

- 10.1 The Internal Audit Service will maintain a quality assurance and improvement programme that covers all aspects of the Internal Audit Service. The program will include an evaluation of the Internal Audit Service's conformance with the *Standards* and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Internal Audit Service's and identify opportunities for improvement.
- 10.2 The Chief Internal Auditor will communicate to senior management and the Audit Committee on the Internal Audit Service's quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside Bristol City Council.

11. Review of the Internal Audit Charter

- 11.1 In accordance with the PSIAS, the Internal Audit Charter is reviewed annually and presented to the Audit Committee for reconsideration and approval, as appropriate.



INTERNAL AUDIT STRATEGY 2022 - 2024

1. Introduction:

- 1.1 The purpose of the Internal Audit Strategy is to enable the Internal Audit function (Internal Audit) to effectively prioritise its resources and focus its priorities on meeting the expectations of its stakeholders enhancing and protecting the Council's values by providing risk-based and objective assurance, advice and insight.
- 1.2 This Strategy contains some improvements and initiatives that will enable Internal Audit to provide value-added services and proactive strategic advice to the organisation in addition to the effective and efficient delivery of the annual audit plan.
- 1.3 This Strategy does not include fraud and corruption as there is a separate Counter Fraud and Anti-Corruption Strategy being developed.

2. Context:

- 2.1 The Internal Audit Charter sets out the purpose, authority and responsibilities of the Council's Internal Audit team. This enables us to work independently ensuring that work is aligned to Council priorities and upholds and promotes the Council's values. As the demands on the Council continue to increase despite the reduction in central government funding we will support the organisation in effectively managing these challenges by working proactively with the Mayor, Directors, Members and Business Partners, sharing data, knowledge and expertise to help improve outcomes for our residents.
- 2.2 The strategy applies to Bristol City Council and its group of companies and any other partnership or commercial arrangements where the Council has control. The assumption is that the Council and its group of companies will continue to utilise the Bristol City Council Internal Audit Service. In other commercial arrangements, where the Council does not have full control, the Council and its partners will need to agree on the acceptable level of internal audit activity and the level of assurance required.
- 2.3 The requirements for an Internal Audit Service in local government are detailed in the Accounts and Audit Regulations 2018, which states that a relevant body must 'undertake an adequate and effective internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control'. The standards for proper practices in relation to internal audit are laid down in the Public Sector Internal Audit Standards (PSIAS). The PSAIS set out the ethical, attribute and performance standards for an effective Internal Audit service.
- 2.4 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. The existence of Internal Audit, however, 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.

3. Background:

- 3.1 This Strategy aligns with the Public Sector Internal Audit Standards (PSIAS) which define Internal Audit as:

“... 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.”

- 3.2 The Chief Audit Executive (Chief Internal Auditor) must deliver an annual internal audit opinion and report that can be used by the Council to inform its Annual Governance Statement (AGS). This opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

PSIASs require that Internal Audit must:

- evaluate the design, implementation and effectiveness of the organisation’s objectives, programmes and activities;
- evaluate the effectiveness and contribute to the improvement of risk management processes; and
- assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

- 3.3 The PSIAS also require the Chief Internal Auditor to develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity which must include both internal and external assessments.

- 3.4 A key driver for this Strategy is the acknowledgement that the Council’s control environment continues to change as the Council seeks to create more alternative service delivery models and leveraging technology to improve public service delivery. The use of alternative service delivery models including Council owned companies has resulted in the Council delivering key services through contracts including operating systems, procedures and processes outside the Council’s direct control. It is therefore critical that the Council has a robust Internal Audit Strategy in place that demonstrates how Internal Audit can support the Council and its group of companies in achieving the Council’s key priorities by maintaining effective risk management, internal control and governance arrangements.

- 3.5 Ultimately this Strategy will help Internal Audit to deliver a focussed assurance programme ensuring it remains proactive and forward looking. On implementation, the Strategy should help deliver a value adding assurance service to the Council by

enhancing the arrangements for providing assurance to those charged with governance, the Audit Committee and management.

4. Our Strategic Approach:

4.1 Our Deliverables

We will:

- Be 'fit for purpose' now and for the future with appropriate capacity and skills to provide services that will effectively support the successful delivery of the Council's Corporate Strategy.
- Deliver a value adding service that is aligned with the Council's strategic priorities and the highest risks to help increase public confidence and trust in Bristol City Council and its partners including wholly owned companies and schools. The key audit areas are:

Governance	Risk Management
Operational Processes	Performance and Delivery
Financial Systems	Programmes and Change Management
Grants	Group of Companies
Information Technology	Advisory
Consultancy	Partnerships
Environmental, Social and Governance	Information Governance including Cyber Security

- Work with senior management to put in place management assurance arrangements that enable them to proactively review, assess and design optimal control frameworks to manage operational and transactional controls.
- Support the Council in delivering a balanced budget by ensuring that new operating structures are resilient, sustainable and support good decision-making, risk management and communication.
- Maximise the use of the Pentana Audit Management System modules to improve our efficiency and effectiveness in audit planning, testing, and reporting activities thereby enhancing the credibility, quality and consistency of internal audit processes.
- Fully integrate the process for following up and reporting the implementation of Agreed Management Actions into performance management system.
- Continuously implement a continuous monitoring and auditing methodology to enable management to continually review business processes for adherence to and deviations from intended levels of performance and effectiveness and internal audit to continually gather from processes data that supports auditing activities.
- Maximise the opportunities brought by technology advancement through exploring the use of technologies such as Robotic Process Automation, Machine Learning, Artificial Intelligence and data analytics tools. This will help Internal Audit to work more quickly, accurately and efficiently.
- Continuously deliver assurance maps for the Council and its companies.

- Embed the use of agile methodologies across all activities to provide more rapid responses to changing business assurance needs.
- Maintain a Quality Assurance and Improvement Programme that provides assurance to stakeholders that Internal Audit complies with the PSIAS.

4.2 Our Reporting

We will:

- Provide impactful reporting on audit findings and the implementation of Agreed Management Actions to the Audit Committee, Corporate Leadership Board (CLB) and management, consistent with agreed reporting protocols.
- Improve agile reporting across all areas of activity.
- Provide an annual opinion and report to the Audit Committee and CLB based on the agreed programme of audit work and other sources of assurance to support the preparation of the statutory AGS.
- Report on our performance and expected deliverables to CLB and Audit Committee as part of performance management arrangements.
- Obtain feedback through an annual survey with key stakeholders on our performance and report results and any action taken to the Audit Committee and CLB.

4.3 Our Resourcing

We will:

- Collectively possess the knowledge, skills, experience and other competencies that are required to deliver the audit mandate and promote agile working and living the Council's values.
- Continue to work with KPMG as our strategic partner in supporting our core delivery arrangements and facilitate the transfer of knowledge through joint audit projects as well as providing training to enhance our commercial and specialist skills;
- Through the Council's staff performance management arrangement, develop, nurture and sustain talent by supporting our staff's continuing professional development and professional qualification training.
- Continue to build resilience within our Service by developing and implementing succession plans at all professional levels underpinned by the principle of growing our own through the apprenticeship and graduate trainee route.
- Formally engage with senior management to explore opportunities for seconding staff in and out of Internal Audit.
- Explore and develop opportunities for wider and more flexible resourcing and intelligence sharing with other assurance providers.
- Continue the co-sourcing arrangements for the delivery of IT audits and foster arrangements for knowledge sharing and transfer with the in-house internal audit team.

- Strengthen our collaborative working arrangements with our External Auditors and other review bodies working with the Council and its group of companies, across the three lines of defence.
- Participate in initiatives by professional bodies and other Audit Network Groups to share best practice across our teams.
- Recognising the budget challenges faced by councils, explore opportunities for collaboration and partnership working with other neighbouring councils to build resilience within our teams.

4.5 Profile

We will:

- Embody the expected Bristol City Council behaviours and values – ensuring we are dedicated, we are curious, we show respect, we take ownership, we are collaborative and we act in the best interests of Bristol, setting an example for others.
- Ensure our work adds value by contributing to the vision and priorities of Bristol and focussing on areas of highest risk.
- Be responsive to the needs of our stakeholders ensuring that outcomes from our work are shared promptly using the most appropriate channel.
- Conform to the PSIAS Code of Ethics – Integrity, Objectivity, Confidentiality and Competency
- Have flexibility to reprioritise and undertake work considered to be high risk at short notice
- Use the Audit Client Engagement model to effectively engage with all our key stakeholders and obtain annual feedback on performance and engagement.
- Be proactive in suggesting meaningful improvements and risk assurance.
- Work as a critical friend and business partner in key programmes and projects.

5. Getting our message across

At the draft report stage of an audit, it is the responsibility of the Senior Audit Client to promptly identify Agreed Management Actions, with a Responsible Officer and defined time frame for delivery. It will be the responsibility of management to ensure that all agreed actions arising from an audit report are implemented in accordance with the timetable they have given. Internal Audit will seek evidence on the progress of actions relating to key findings from the Audit Client against this timetable and report this to the CLB and Audit Committee. Where information is not provided within agreed timeframes reports will be issued without that information and the relevant senior managers will attend CLB and Audit Committee to provide further assurance.

6. Facilitating our work

To enable us to deliver a value add service we will foster collaborative working arrangements with our audit clients underpinned by our new client engagement model. The engagement with the responsible senior managers is crucial at all stages of the audit cycle particularly around:

- rolling audit planning,
- agreeing scope and terms of reference,
- cooperation and availability throughout the audit fieldwork,
- collaboration over the reporting and agreeing the necessary management actions,
- implementing the agreed actions in line with the agreed time scales,
- providing feedback on internal audit performance following completion of audits, and
- prioritising audit engagement to enable timely completion of audit activities.

8. Managing our performance

We will manage our performance consistent with the Council's performance management framework. The following Key Performance Indicators will be monitored and reported on.

Performance Indicator	Performance Target
<i>Effectiveness</i> % of the audit plan achieved	90% of the annual audit plan completed
<i>Efficiency</i> % of draft reports issued within of 10 days from end of fieldwork	90% of all draft reports issued.
<i>Efficiency</i> % of final reports issued within 5 days following receipt of management responses	95% of all final reports issued.
<i>Improvement</i> % of agreed management actions implemented timely	93% of all agreed management actions implemented within the agreed timeline.
<i>Value addition</i> % of stakeholders satisfied with audit outcomes and value	90% of surveyed stakeholder satisfied with audit performance and outcomes.

9. Our risks

We have identified the following risks that may impact on the delivery of this Strategy which we will manage effectively consistent with the Councils' risk management framework.

No.	Risk Description	Risk Owner
1.	Failure to deliver the annual audit plan	Deputy Chief internal Auditor
2.	Failure to attract, recruit and retain top talent	Chief internal Auditor
3.	Failure to detect material weaknesses and problems	Deputy Chief internal Auditor

No.	Risk Description	Risk Owner
4.	Non-compliance with professional standards	Chief internal Auditor
5.	Expectations Gap	Chief Internal Auditor

10. Assurance Levels

The system of internal control will be assessed and given a level of assurance. The four levels of assurance will be as follows:

Assurance Level	Generic Description
Substantial	There are sound risk management, internal control and governance processes which are designed to achieve the service objectives, with key controls being consistently applied.
Reasonable	Whilst there is basically sound risk management, internal control and governance processes, there are some weaknesses which may put service objectives at risk.
Limited	There are weaknesses in the risk management, internal control and governance processes; putting service objectives at risk.
No	The risk management, internal control and governance processes are generally poor and as such service objectives are at significant risk.

Internal audit: untapped potential

May 2022

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Acknowledgements

We would like to thank Khalid Hamid for his helpful comments and support and Jonathan Gordon for his expertise on the research survey. Milan Palmer, Sarah Delaurey, Mark Davey and Ursula Dale also provided essential support on the project.

We would also like to thank Liz Sandwith at the Chartered Institute of Internal Auditors for her comments and support on both the survey and report.

The input of all those who shared the survey link, responded to the survey or attended a focus group has been invaluable. In addition, we are grateful to the individuals we spoke to during the research.

The views expressed in this report are those of the authors unless otherwise stated and the responsibility for any errors or omissions lies with them.

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Making it count

CIPFA is committed to changing lives for the better.

As a global leader in public financial management and governance, our aim is to make a difference to the world we live in. Our work enables people to prosper, protects the vulnerable and helps sustain the environment for future generations.

As a professional institute, we support our members and students to act with integrity and deliver excellence in public financial management throughout their careers.

By setting standards and advising public bodies and governments, we help ensure the money and resources used on behalf of citizens are raised and spent fairly, transparently, efficiently and are free from fraud and corruption.

Our thought leadership puts us at the heart of the policy debate, while our education and training offerings and range of advisory services support our members, students and other public finance professionals, helping them add value to their teams and the organisations for which they work.

CIPFA is a global body, operating at local, national and international level. Wherever we find ourselves and whoever we are supporting, our goal is to always make it count.

Foreword

CIPFA advocates best practice in assurance, governance, management and financial control across the public services. As such, we think it's time to put public service organisations' internal audit capabilities in the spotlight.

We know internal audit has the potential to help organisations achieve their goals, but this potential is not currently realised. In a technologically advancing world and with tackling climate change high up on the agenda, it's time to address this. This report, and the research that has been conducted to create it, explores the changing landscape of internal audit in the public services and how vital it is for an organisation in terms of its future success.

As the pandemic has shown us, managing emerging risks and responding to ongoing geopolitical and technological change remain top priorities for organisations. This means that internal audit must respond too, and the profession must continually evolve to remain effective and efficient.

To keep pace with these changes, we have identified several aspects of internal audit that require attention, including resourcing, the need for specialisms, reporting lines within organisations, and investment in training to attract long-term expertise into the profession. The public services also need to keep pace with their expectations of internal audit, ensuring they make full use of its expertise.

Our intention with this report is to open a dialogue across public service organisations, the internal audit profession, audit committees, as well as those considering a career in internal audit. Internal audit is an important part of the solution for effective management of the public services, and we hope to facilitate change that will see greater independence of internal audit, sustainability of recruitment into the role and an increased understanding of assurance.

Allowing internal audit to achieve its full potential benefits organisations, the public services overall and the public finance professionals of the future. We hope this report gives the internal audit profession the confidence to champion the critical work it does.

Rob Whiteman CBE
CIPFA CEO

Executive summary

We need to talk about internal audit – talk about it more and talk about it in the right way.

This report is titled *Internal audit: untapped potential* because CIPFA believes that internal audit has a vital role to play in supporting public service organisations to achieve their goals.

CIPFA has conducted UK-wide research, sending an open survey to those in the public services, including those in the internal audit profession, management clients and audit committee members. The survey received a strong response with 831 submissions. The outcome of the research concludes that where internal audit is operating effectively, it is already providing this support, but there are pockets where internal audit is unable to do this. This report will examine how internal audit is currently making an impact, identify where it can do more and what is holding it back. Better internal audit means better public services.

As with all organisations, the public services must respond and adapt to global trends and areas of risks. The COVID-19 pandemic put the public services on the front line of the UK's response, requiring them to be agile and redirect resources accordingly to meet new challenges. Advances in technology present new opportunities for service redesign but also challenges around complexity and security. Many parts of the public services are people focused, and rising needs and demographic changes result in challenges across health and social care. The impact of climate change on services and carbon reduction initiatives are core parts of the public sector agenda.

At the same time, the public services have experienced a sustained period of financial pressure, resulting in reductions to core functions, loss of expertise and difficulties maintaining demand-led services within allocated budgets. Long-term financial planning is challenging, and many public bodies have explored new structures to deliver services or generate income.

Demonstrating stewardship of public funds, building and maintaining public trust and confidence in decision making and delivering a sustainable future for taxpayers and service users are fundamental expectations of all those working within the public services.

Where does this leave internal audit? What contribution can internal audit make to this complex web of expectations, obligations, ambitions and challenges?

When internal audit provides support, it does so in a unique way. It provides independent assurance. Achieving this requires a resource base of trained internal auditors supported by modern approaches and professional standards. It needs both capacity and capability. Internal audit also needs to work in conjunction with an organisation's governance, risk, control and assurance frameworks. A professional team of internal auditors will not have the desired impact in an organisation that doesn't understand its assurance requirements or have good governance arrangements. Assurance requirements are constantly evolving, and internal audit must keep up with the pace of change to stay relevant. Concerns that organisations face such as climate change and increased cyber security and financial risks are areas where internal audit can have a great impact.

Currently, the role of internal audit varies greatly between organisations. There is a need for consistency, quality and adherence to professional practice to ensure that an organisation has access to the assurance requirements it needs as opposed to just those that are available. Internal audit must also develop the capacity and ability to be sustainable. To achieve this, organisations must ensure the provision of internal audit expertise. The sections on recruitment, retention and training in this report explore this further.

Our conclusion is that things need to change.

1

Successful organisations need to have robust and effective management and governance, including an understanding of assurance.

Improving this understanding will enable the most effective use of internal audit.

3

Internal audit must be kept independent to achieve its maximum impact in an organisation. Auditors frequently take on additional roles, which may compromise their independence.

They must have a sole focus and a direct reporting line to the leadership team as required by the Public Sector Internal Audit Standards (PSIAS).

2

Internal audit is often not allowed to unleash its full potential. The importance of its contribution must be fully understood and appreciated by clients – management and audit committees.

Internal audit managers must become greater advocates in promoting the function within organisations.

4

Discussions on public sector policy issues, be they social care, financial resilience or technological change, should acknowledge the importance of assurance and highlight internal audit's contribution.

This would help raise the expectations of internal audit's clients.

Internal audit is not the only solution to supporting effective public services, but it is part of the solution.

Where do we go from here?

This report makes several recommendations. Some are directed at the internal audit teams working within and for the public services. Others are directed at the client organisations, both management and audit committees. There are areas of planned work that CIPFA will be taking forward, some in collaboration with the Chartered Institute of Internal Auditors (CIIA) and the Internal Audit Standards Advisory Board (IASAB).

Continuing support for internal audit

CIPFA and the CIIA are keen to keep supporting high-quality internal audit within the public services. The institutes are exploring ways that they can collaborate more to continue the work set out in this report. Working together and with IASAB, they will support internal auditors to meet the PSIAS.

Both institutes have identified specific areas where they can collaborate. These include raising the profile of the internal audit profession in the public services, improving internal audit's status and cultivating a greater understanding between internal audit clients and audit committees. They will also examine issues raised in the report around professional standards, such as the head of internal audit's annual opinion and the quality assurance and improvement programme, to identify where guidance or support could improve practice.

Both institutes are mindful of the challenges that internal audit teams experience in the recruitment and retention of staff. Therefore, they will undertake some research on options for career paths and routes into internal audit to encourage long-term, sustainable recruitment into the role.

Identifying the impact of internal audit

Internal audit is vital because it focuses on the areas that are important for organisations and therefore supports their success.

Internal auditors help management, boards and their audit committees understand how well risks are managed, and the effectiveness of the governance and control framework in place – key things senior stakeholders need to know to be effective in discharging their own role. Strong internal audit functions will be more prepared to support the public services of the future, and to support organisations going through change.

In this research, we have focused on making an impact: internal audit that is not only effective in what it can offer but achieves influence with key decision makers for the benefit of organisational objectives.

There is no 'formula' for assessing or quantifying the impact of internal audit, as many of the indicators of an effective internal audit service are, to some extent, subjective.

Indicators of effective internal audit

- 1 Good engagement with senior management and the audit committee, while maintaining independence and objectivity.
- 2 Internal audit plans clearly aligned to the topics that are most important for the success of the organisation.
- 3 Timely and meaningful assurance, communicated in a way that is understood by stakeholders.
- 4 The ability to challenge constructively and to help management find solutions.
- 5 The ability to respond to emerging risks or issues and changing priorities for the organisation.

Additionally, internal auditors must be able to demonstrate their conformance with internal auditing standards, including the PSIAS, which are mandated for the UK public sector, and which are based on global internal auditing standards.

However effective and impactful internal audit teams may be, our research shows they are enhanced when operating in an organisation that understands assurance and the role of internal audit and engages with internal audit to obtain the maximum benefit from the function.

Our research concludes that the impact of internal audit is determined by interlinking factors in both the internal audit team and in the organisation. We have developed a model to highlight this.

Impact

The impact of internal audit can be defined as its ability to support the organisation in achieving its strategic objectives and priorities. This will be through an appropriate mix of assurance, consulting activity and advice. The impact of internal audit will vary across organisations based on assurance needs, organisational culture and capacity for continual improvement.

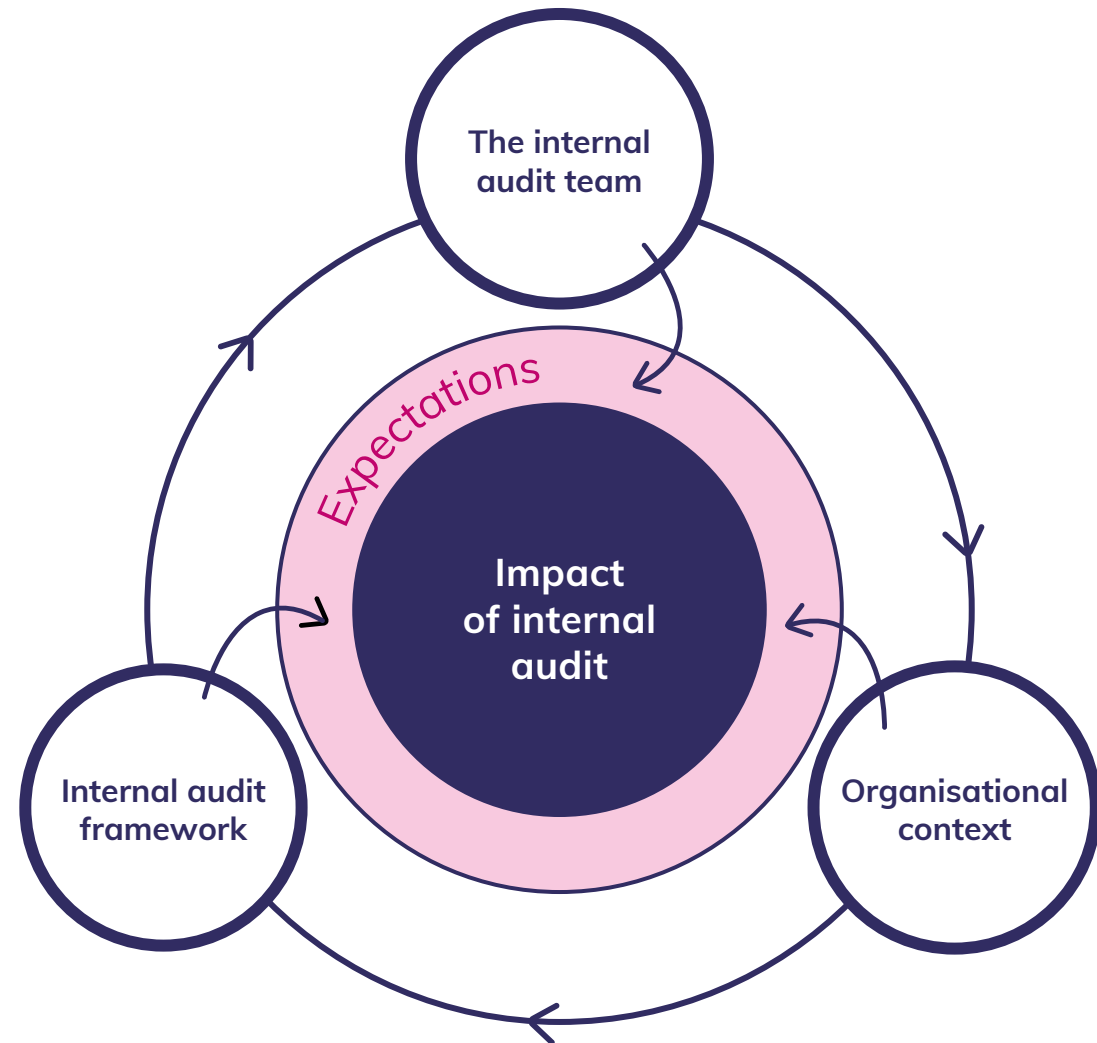
The impact of internal audit is dependent on the quality of the internal audit team, the framework and the organisation in which internal audit operates. Each of these will shape expectations of what internal audit can and should deliver. The individual components of internal audit impact are discussed in Appendix A.

Our findings and recommendations

Many of the findings from our research are interwoven. We cannot consider the impact of internal audit teams without considering, for example, the environment in which they work, the stakeholders and clients they serve, and the skills and resources needed to provide that service.

Our research included an extensive survey of internal auditors and their clients, including audit committee members, from across the public services. This was supported by focus groups and a literature review. The next section of the report will identify the evidence from our research that shows how internal audit is currently making an impact. We will then consider the future potential for internal audit. What can it do more of and where can it be more effective?

Finally, we will consider the factors that currently hold some internal audit teams back.



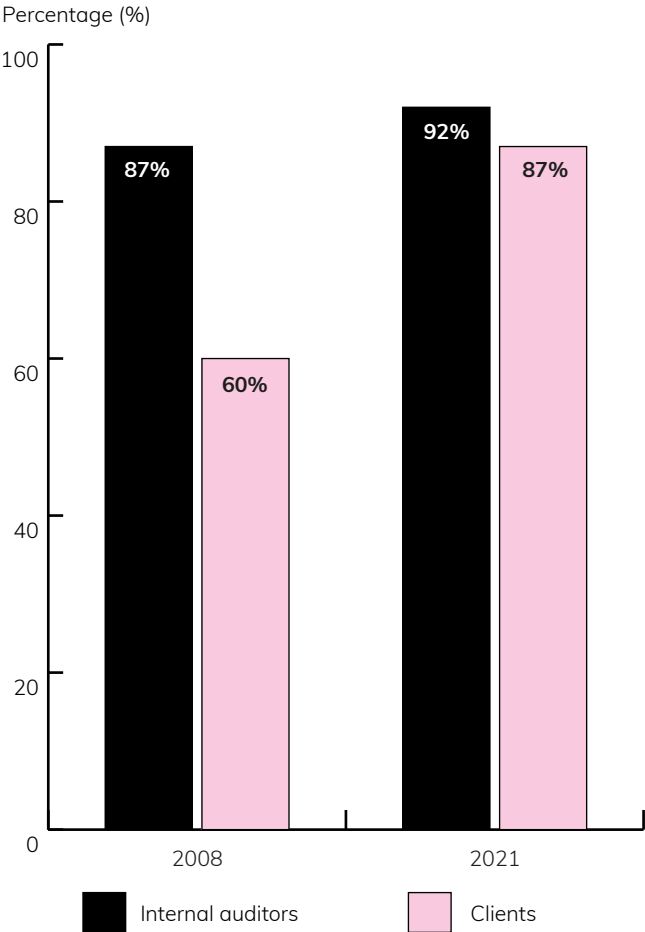
IPFA's findings:

How internal audit is making an impact

Internal audit's contribution has improved

In 2008¹ CIPFA identified an expectation and perception gap between local government internal auditors and their clients. Our new research identifies significant progress on closing this gap. This is most notable in terms of the contribution that internal audit makes in supporting the management of the organisation. The 2021 survey feedback is more positive than CIPFA's 2008 survey; a positive view of internal audit's contribution from clients increased significantly from 60% to 87%.

In the 2021 responses concerning the contribution of internal auditing, audit committee members are more positive than management (92% agreed, compared with 84% of management). Similarly, heads of internal audit are upbeat about this, with 96% agreeing that internal audit makes a positive contribution, reducing to 89% across other members of the internal audit team.



Respondents agreeing or strongly agreeing with the statement: the contribution internal audit makes supports the management of the organisation.

Making an impact on governance arrangements

Worcestershire Children First is a wholly owned company of Worcestershire County Council. Following high-profile governance failures in other LATCs, WCF identified that it would be good practice to review its arrangements.

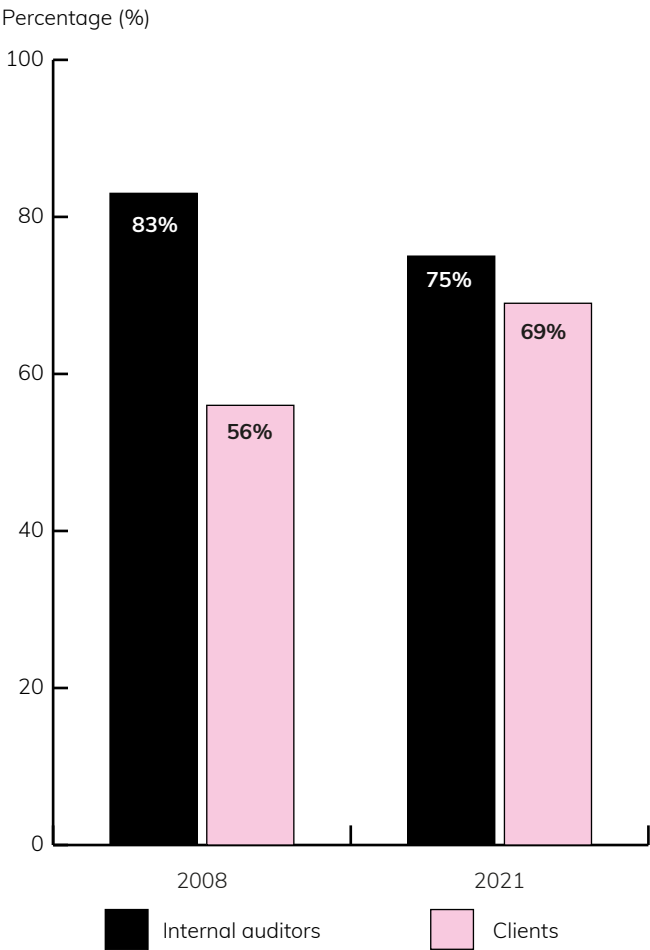
The Director of Resources undertook a review of the company's governance arrangements, as well as the council's shareholding and commissioning arrangements. Internal audit reviewed the outcome of the self-assessment, which provided independent assurance and added value to share good practice across the council. Internal audit had to challenge themselves and work differently with a self-assessment model, and in doing this, they were able to add value to the review and the outcome. They helped to embed understanding about governance and roles across both organisations. The review was used as a board refreshers training session and used with the leader and senior cabinet members.

¹ Perceptions of audit quality: a survey analysis (CIPFA, 2009).

One of the reasons for the improved contribution, and perception of the contribution, of internal audit may be better communication between internal auditors and their clients.

In 2008, just 56% of clients agreed that internal audit communicated effectively; in 2021, this has increased to 69% of clients. For internal auditors, there was a decline in their positive view of their communications, but this was primarily noted among audit team members rather than heads of internal audit. This could reflect the wider experience of communications among heads of audit.

Effective communication is a core skill required at every stage of the audit process, from explaining the rationale for conducting an audit to exploring options for control improvements with clients. To have impact, internal auditors need to ensure that the communication is consistently of a high standard and meeting client expectations. The improvement in client perceptions is very welcome, but auditors will need to continue to focus on effective communications.

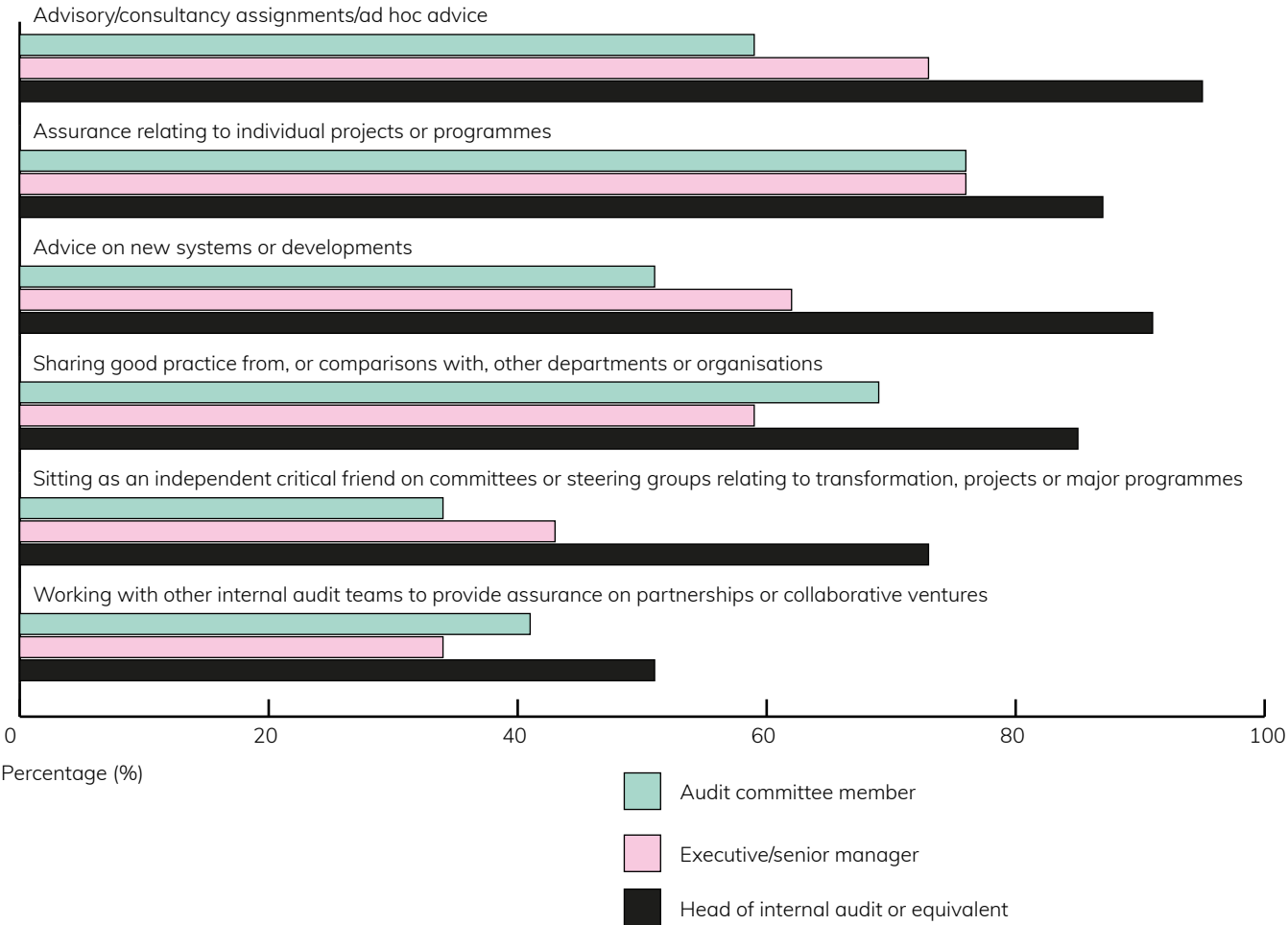


Respondents agreeing or strongly agreeing with the statement: internal audit builds and maintains effective communication at all levels within the organisation.

The services provided by internal audit vary

Internal auditors make an impact through a range of approaches. Our survey identified that while most internal audit teams were already offering broad coverage, their clients did not always recognise this.

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The view of what internal audit currently delivers, split by role.

The disparity is most marked in relation to the role of internal audit sitting on project or steering groups and in advice provided on new systems or developments. Heads of audit will have a full understanding of their team's activities, while clients perhaps only recognise those where they have had direct interaction. There is also a difference in perception between management and audit committees, perhaps reflecting that not all advisory work is reported to the audit committee in detail.

Recommendations:

- Part of the role of the head of internal audit should be to advocate for and explain the role of internal audit. This could usefully include explaining the nature of internal audit consultancy or advisory work and draw out the benefits of internal audit interventions. Engagement and communication with senior stakeholders are core skills for effective heads of internal audit.
- Internal audit should provide the audit committee with an overview of all work it undertakes to ensure that there is visibility of any advisory activity. This does not necessitate a detailed report to the committee on all advisory work.

Showcasing internal audit: how the pandemic created opportunities

Another opportunity to have an impact is to ensure that internal audit is responsive to change and clients' needs. The pandemic provided considerable challenges for public sector bodies. Survey respondents were asked how the impact of internal audit has changed due to the COVID-19 response. Views were similar across respondent groups and sectors, with a mild positive response. Forty-two percent of respondents said that internal audit colleagues attended COVID-19 response meetings with management.

A number of participants reflected that the quick response by their internal audit function to provide agile and targeted assurance and advice had been an opportunity to showcase the ability of internal audit and had helped raise the profile of the team and how it is able to support the organisation. This may have helped individual relationships with senior managers and departments rather than bringing about an overall change in perception of impact.

The potential for internal audit

Our research explored different ways to improve the impact of internal audit within organisations. When considering these opportunities, it is essential to consider them from both the perspective of a client as well as an internal auditor.

Expectations and understanding

There is a range of expectations of internal audit from management and audit committees, as well as a difference in the perception of what internal audit delivers for the organisation.

Examples shared through discussion groups ranged from internal audit teams that provide fundamental assurance on core financial controls but little coverage of strategic topics, through to internal audit teams that have flexible plans clearly aligned to strategic goals and that can provide advice or swift assurance in response to emerging issues. This variation was reflected not only in the discussion of internal audit plans and proposed activity, but also in the expectations of senior management and audit committees. Some clients recognised they received a basic assurance plan around core systems and did not want additional coverage. Others already received a broader plan linked to strategic priorities or encouraged the internal audit plan to move towards this.

CIPFA believes that higher expectations by management and audit committees will provide both a challenge and support for internal audit. Higher expectations would ultimately be beneficial for the profession in the public services. This means there is a need for organisations to focus on what assurance or advice is needed rather than what assurance internal audit is currently able to deliver.

CIPFA has established expectations of internal audit through the CIPFA statement on the role of the head of internal audit.

The head of internal audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

- objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control
- championing best practice in governance and commenting on responses to emerging risks and proposed developments.

While heads of internal audit might have these expectations, clients and audit committees also need to share them if internal audit is to have greater opportunity for impact.

Stable, supportive leadership has a huge role to play in getting the best out of internal audit, setting the culture of accountability and improvement.

Assistant Director, Metropolitan Council

Planned developments

CIPFA will consider how its forthcoming publication on assurance frameworks can build on its statement on the role of the head of internal audit to aid the understanding of assurance needs among leadership teams. CIPFA would like to see a culture of engaging with assurance and raised expectations for the internal audit profession in the public services.

Present and forthcoming actions:

The global IIA is currently undertaking a refresh of the International Professional Practices Framework on which the PSIAS are based. Once the new international framework is known, the IASAB, along with the relevant internal audit standard setters for the public services in the UK, will review the PSIAS and update accordingly. This may also be an opportunity, with a simplified framework, to raise the profile of internal auditing standards, and the role that management and the audit committee play in creating a culture of engaged assurance, to create an environment in which internal audit can make a greater impact.

More strategic coverage

A key factor of the impact of internal auditing is the nature of the areas in which internal audit invests its time and focus. We were interested in topics where internal audit should be focusing and also the nature of activities that internal audit should include in its work.

We asked survey respondents to identify three themes that internal audit should focus on in the coming three years that would have the greatest impact on an organisation. Cybersecurity was the top priority area identified by all groups of respondents. Second was digitisation and the use of data. Technology and the impact of digitisation is not a new priority. In 2008, internal auditors ranked information technology as their second most important priority area for future internal audit coverage; at that time, clients saw this as lower priority.

The top six areas that should be covered to achieve impactful internal audit in the coming three years, as identified by our research, are as follows.

- Cybersecurity
- Digitisation and the greater use of data within the organisation
- Environmental sustainability/climate change
- Financial viability
- Culture and ethics
- Supporting improved risk maturity.

There were some differences in the views of internal auditors and clients. Internal auditors thought cybersecurity, culture and climate change were a higher priority compared with clients. Management thought internal audit's role in helping to improve risk maturity was more of a priority compared with audit committee members or internal auditors. Of these six topics, management were least interested in audit coverage around culture and ethics and were less interested in assurance linked to financial viability than internal auditors and audit committees.

Some internal audit teams are already providing assurance on these areas, although not necessarily in as much depth or with as much coverage that heads of internal audit or their clients would like to see in future.

Balancing the need for deep specialisms

Heads of internal audit recognised that both cybersecurity and climate change would be areas of increased focus for internal audit, but that they would not be able to develop deep specialisms.

Topics such as cybersecurity will require significant technical knowledge, and often, this will be unrealistic for in-house teams that do not have access to additional skills through a co-sourced arrangement to provide assurance on some aspects of cyber risks. Internal audit should still be able to provide assurance over the strategic approach of the organisation, however.

As public sector organisations work towards zero carbon strategies, many may have made carbon reduction commitments but have yet to finalise detailed plans to achieve this target. There is an opportunity for internal audit to play the role of critical friend in terms of how other plans, priorities and goals may impact, support or contradict climate priorities and targets.

To enable internal audit to have impact in these areas, audits should be carefully scoped and other assurances available considered. For example, in relation to cybersecurity, there will be some areas of risk and control that internal audit can consider in all audit work (such as access controls and data governance). A useful role of internal audit may be to recognise a wider range of existing assurance and specialist input, some of which may not be visible to the audit committee, and to help develop a map of assurance needs and priorities and how such assurance can be obtained.

Developing a golden thread through controls, assurance and internal audit

Across central government, the Government Internal Audit Agency (GIAA) and HM Treasury have been working with finance and risk colleagues to clarify the control framework that underpins the responsibilities of accounting officers. The team is also considering how assurance can be provided on the elements of the control framework. A third stage will shape how internal audit plans and reports its work. As well as supporting a better understanding of controls and assurance, the project should help internal auditors deliver internal audit opinions that can be compared across government.

This example shows how internal audit can have an impact in improving internal control and assurance arrangements, as well as helping internal audit opinions to be more meaningful for their clients.

Auditing financial risks

Traditionally, internal audit has provided assurance over financial systems and processes such as payments, income collection and payroll. In many organisations, such systems operate well, and the risks associated with them are well managed. Is there still a role for internal audit to provide assurance over financial risks? To what extent can internal audit provide assurance over the big financial risks associated with policy and strategy as well as the more traditional assurance over internal financial control systems? Our survey shows that financial viability is an area of priority for future internal audit coverage.

Examples of such risks are financial resilience, medium-term financial strategies and decisions around commercial strategies. Typically, the planning and decision making on such strategies will take place at a senior level within the organisation, and they can be complex and technical. This can mean they are difficult for internal audit to approach. However, their strategic importance to the organisation is such that they come with big financial risks. They are also areas the audit committee should be seeking independent assurance on.

Neither the audit committee nor internal audit will be seeking to influence the financial policies themselves, but they will want to feel confident that the strategy is sound, supported by robust data and incorporates risk management measures. They should therefore audit the arrangements and assumptions underpinning those decisions, plans and strategies.

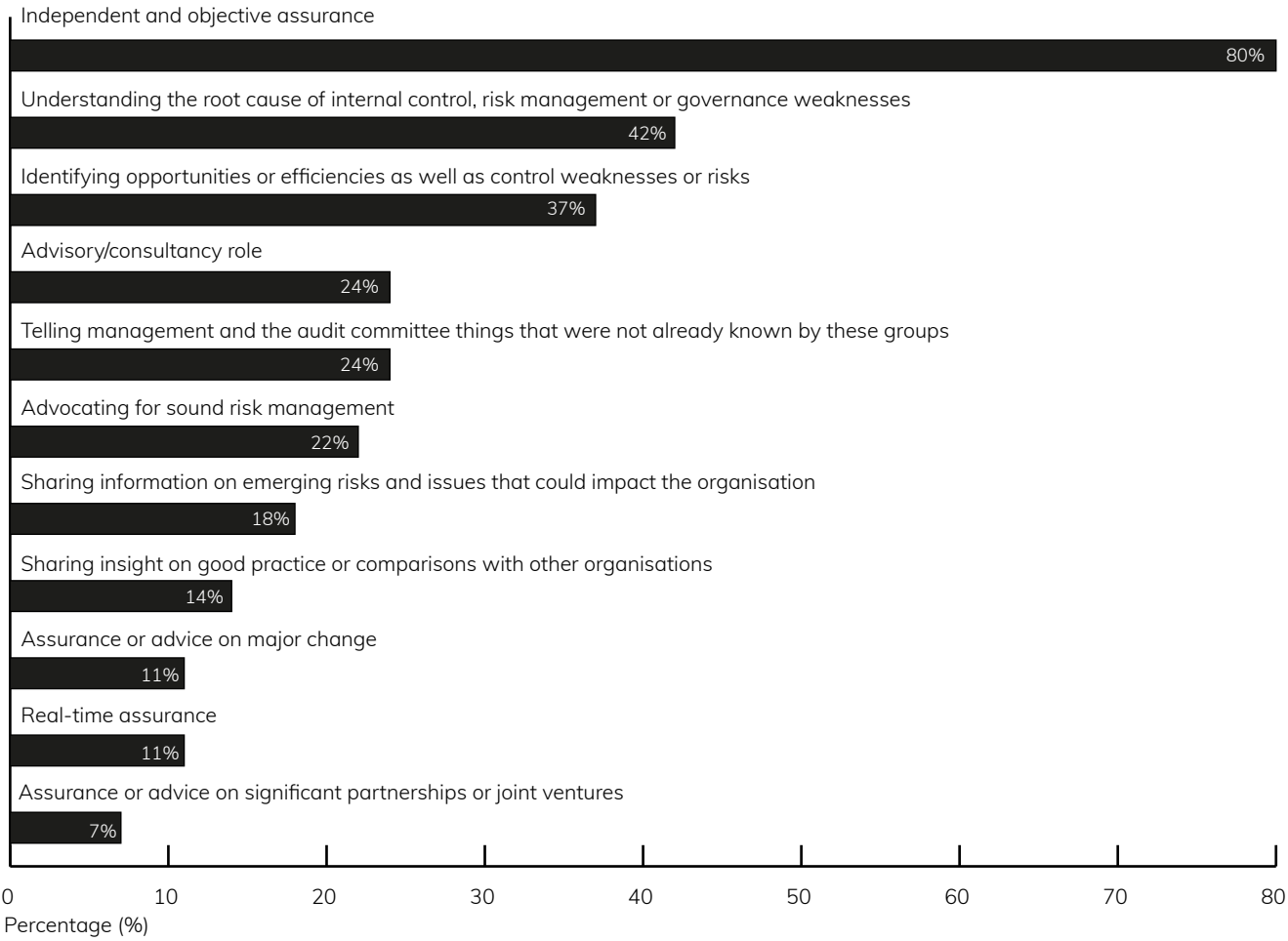
This area provides an opportunity for internal audit to have an impact in an area clearly linked to the achievement of organisational objectives. To be most effective in this area, auditors will need to have a good understanding of the financial framework in which their organisation operates. In public bodies, particularly local government, this can be complex, involving government grants, local taxation, rental income, investment income, fees and charges and its own capital management. The auditor will also need to understand how macro trends will impact on the organisation; for example, demographics, inflation, interest rates, national and local economic growth and technological innovation may all be relevant. Changes to government policy can also impact directly on public bodies' plans, so their internal auditors need to keep up to date with the wider policy agenda.

Going beyond assurance

Internal auditors provide a range of services as well as assurance

We have not asked internal auditors or their clients to provide an overview of their current internal audit plan and its priorities but did ask for feedback on the internal audit approach, engagement and particular tools or activities.

The responses to a question on how internal audit currently contributes to an organisation reflect a somewhat traditional view of internal audit activity. Unsurprisingly, independent and objective assurance is the highest-ranking response. Other activities that would perhaps be expected in a high-functioning internal audit team such as providing advice, helping to understand the root cause of weaknesses and audit coverage relating to major change receive a much lower ranking and may reflect that internal audit could have more of an impact in delivering its core role and current assurance plans.

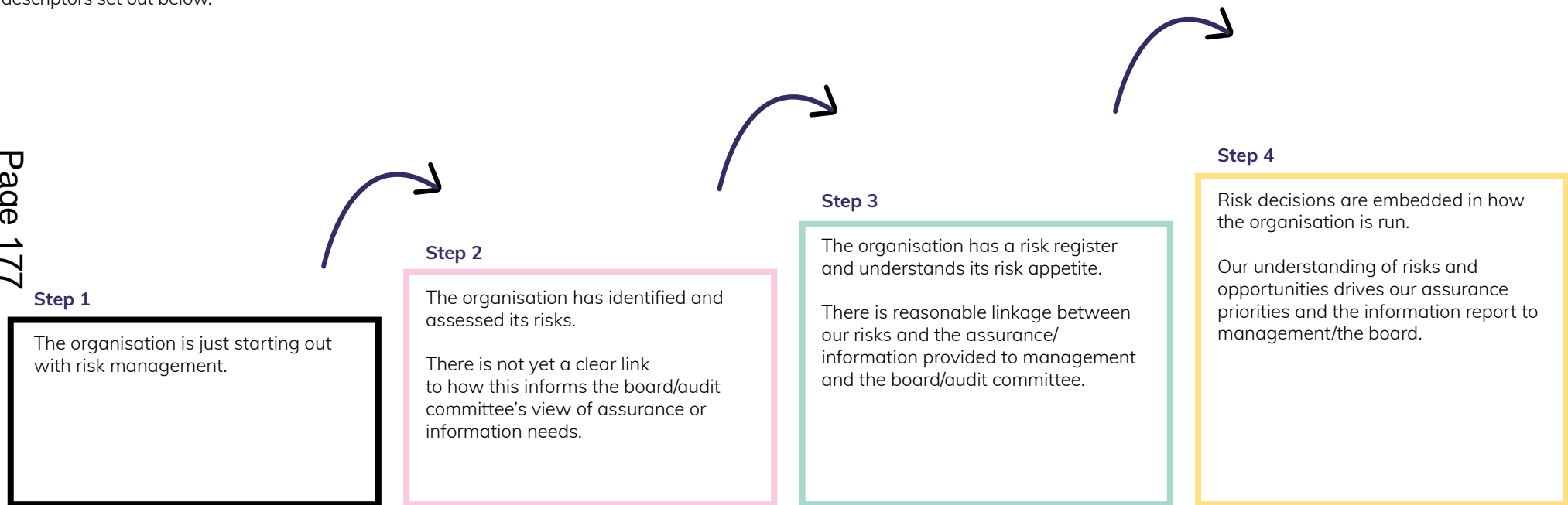


Respondents' views on how internal audit currently contributes to the organisation.

Supporting improved risk maturity

There are several different models of risk maturity available. We set out a simple, four-scale descriptive framework and asked respondents to share their view of their organisation's current risk maturity, with maturity increasing from left to right on the descriptors set out below.

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We can see a difference between the views of heads of internal audit, management and audit committees. Overall, management and audit committee members considered that their risk management arrangements were more mature than the view of internal auditors.

The results from both auditors and clients indicate that there is scope to improve arrangements for managing risk in public sector bodies. Thirty-one percent of respondents believe that the impact of internal audit would be enhanced if there was greater support to help the organisation understand risk and its risk maturity – areas where there is scope for internal audit to bring its advisory role to bear.

Recommendation:

Leadership teams and audit committees should strengthen their risk management arrangements. Internal audit's annual opinion on risk management should provide clarity over aspects for improvement and identify opportunities for support.

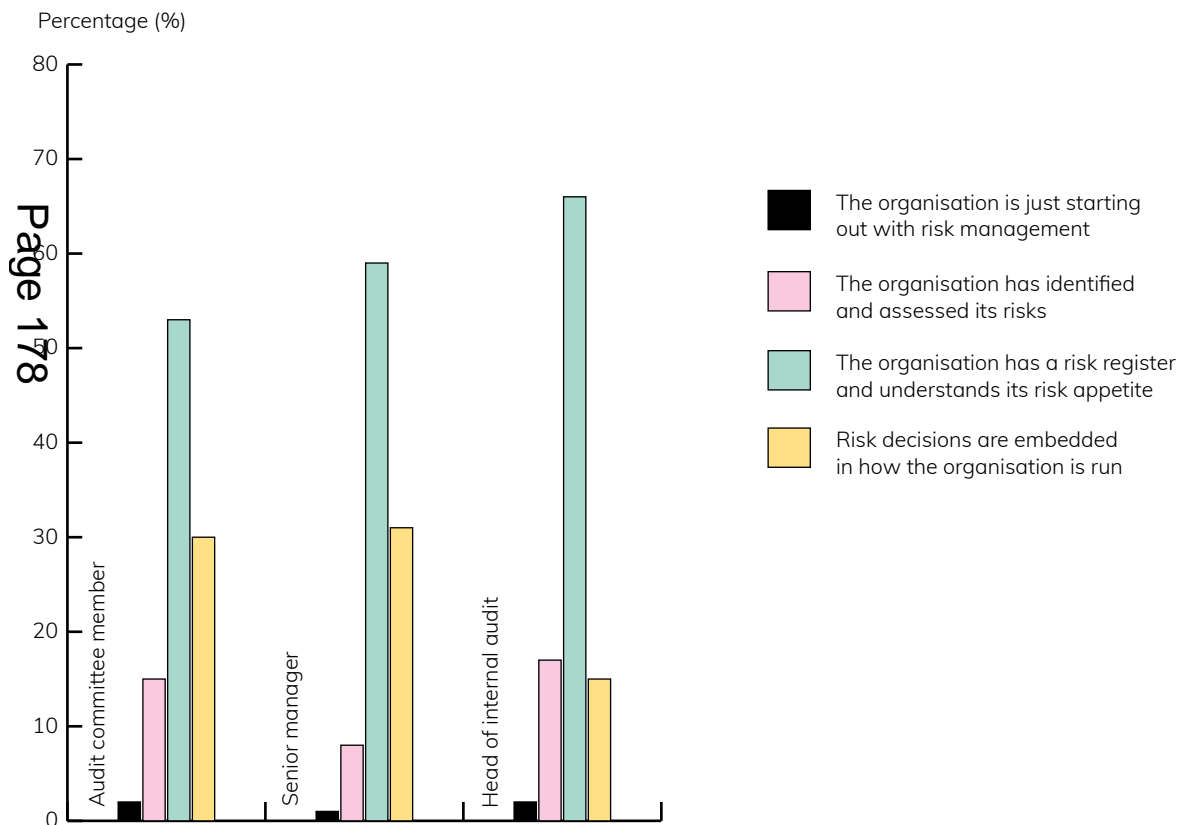
Sharing best practice

On the theme of value, clients' perceptions of quality were influenced by the ability of internal audit to share ideas and good practice across departments or from other organisations. Such insight was found to be useful and added value to the internal audit process.

Fourteen percent of respondents said that internal audit currently contributes to the organisation's success and delivery of strategic priorities by sharing good practice and/or comparisons with other organisations. A further 19% of respondents identified this as a future priority for internal audit.

Our internal audit service is able to provide comparisons and informal insights from other blue light organisations. This helps the audit committee gauge its response, particularly regarding systemic issues.

Jonathan Swan, Chair of the Joint Audit Committee for the Essex Police, Fire and Crime Commissioner and Essex Police



Respondents' views on risk maturity (by role).

Data analysis

The impact of internal audit comes not only from the nature of topics on which it focuses, but also the tools used. Many internal audit teams are using some form of data analytics, including spreadsheets, specialist analytical tools such as ACL and IDEA, and data visualisation tools such as Power BI and Tableau.

Where data analytics are not already being used by the internal audit function, 68% of internal auditors and 40% of clients think that adding analytics to the audit toolkit would be beneficial.

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 Respondents were aware that internal auditors are seeking to use analytics and to upskill team members, but also reflected barriers such as multiple legacy systems and challenges to accessing the organisation's data.

During 2021, we recruited at trainee level and had a tremendous response in the number of applicants. One of the lessons learnt from the recruitment process is the number of potential recruits with significant data analytics experience.

In subsequent processes, this will be an area that we specifically highlight in the job adverts to further increase the talents required for the service moving forward.

Jonathan Idle, Head of Internal Audit, Kent County Council

The consulting role of internal audit

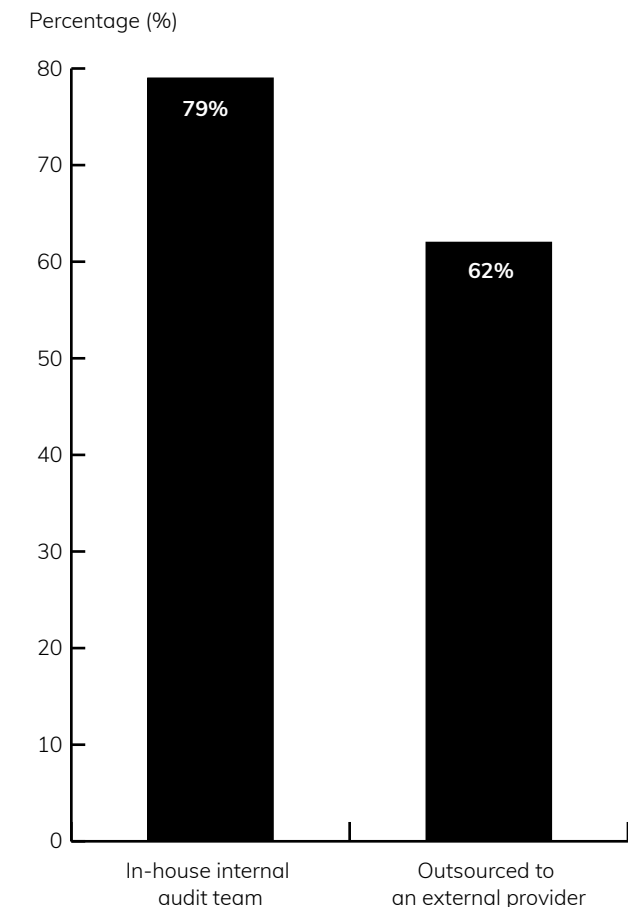
The definition of internal auditing recognises that internal audit has both an assurance and consulting role.

Internal auditing 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.

International Standards for the Professional Practice of Internal Auditing/PSIAS

Eighty-six percent of respondents stated that internal audit delivered advisory or consulting work or provided ad hoc advice to the organisation. Notably, stakeholders appear less aware of this, with just 59% of audit committee respondents confirming this role compared with 73% of management and 95% of heads of internal audit. However, only 24% of respondents saw the advisory role as a current priority in terms of best describing how internal audit contributes to the success of the organisation.

When responses about advisory work are compared by the internal audit resourcing model, more respondents with in-house internal audit agreed that their internal audit service provided advisory assignments or advice on new developments. The response regarding in-house teams using co-sourced arrangements reflected a similar response to in-house teams that did not use co-sourcing.



Respondents who stated that internal audit provided advisory work or advice on new systems and developments.

Our roundtable discussions with a range of internal auditors and stakeholders reflected a varied understanding of the advisory role of internal audit. Some stakeholders – audit committee members in particular – voiced their concern that internal audit undertaking consulting work can impair its independence and objectivity when it needs to later provide assurance in that same area.

Internal audit consulting input may not always be a standalone assignment; for many internal audit teams, a core element of their advisory role is to attend project or steering groups to act as a critical friend. It is key that internal auditors should not have a decision-making role at any such meeting; however, being present enables internal audit to be aware of progress and make decisions to determine how it can best respond to support the organisation (including planning, real-time assurance or being able to ask questions to check that decisions made are well thought through). Internal audit will also seek to ensure good governance, with risk management and control built into any new development, control framework or scheme.

I have found that sitting on various programme and change boards has helped the organisation better understand how internal audit can support programmes. We are now invited in by programme teams rather than having to assert our right to provide assurance or advice.

A recent example is the new case management system. The programme board asked for internal audit input during the development phase. We are able to provide challenge on how the new system meets the needs of the organisation, whether previous audit findings have been addressed, and test the proposed control framework early enough to make a difference.

Paula Mills, Head of Governance and Assurance, Basildon Borough Council

What is holding
internal audit
back?

The challenges set out in the following pages are faced by many public sector organisations. That is not to say that these are faced by all, or that internal audit teams, senior management or audit committees are not seeking solutions or taking action. There are also variations across different parts of the public sector and differing views between internal auditors and their clients.

The obstacles noted will be interdependent for some organisations; it is likely that internal audit functions with a low profile will also be less likely to argue the need for more resource or enhanced training. Similarly, an organisation that is not yet risk mature may be less likely to seek assurance on strategic priorities.

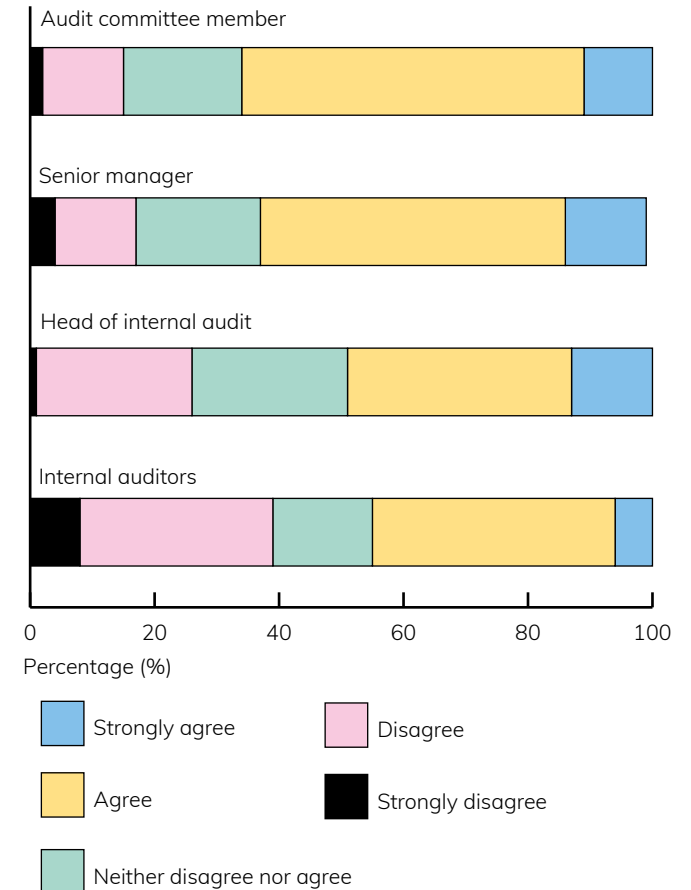
Resourcing

Capacity of internal audit

The level of internal audit resourcing is often a difficult one. How much assurance is sufficient? What other assurances exist? What skills and experience are needed to deliver the required assurance? Internal audit functions, alongside those in other departments, have seen headcount reductions over the past decade.

In our 2021 survey, CIPFA asked clients and internal auditors for their views on internal audit resourcing. When asked specifically about the resource capacity of internal audit, there is a difference in views between groups of respondents, with clients more positive than internal auditors on the current capacity of the internal audit service to provide the service the organisation requires.

Forty-three percent of internal auditors said that increasing the capacity of internal audit was a priority for improving its impact and effectiveness. Less than 30% of clients agreed this was a priority. However, a related question (see right) on whether internal audit has the resource capacity to provide the service the organisation requires indicated a higher percentage of clients recognising capacity constraints



Internal audit has the resources (capacity) to provide the service the organisation requires. View based on role of respondent.

Balancing resource

Resourcing was a topic of discussion at our roundtable events, with several heads of internal audit noting that there can be a difference between the levels of assurance an organisation requires (client appetite for assurance) and the levels of assurance an organisation needs. Many commented on the need for more resources in comments within their survey responses, together with the challenges in ensuring there are sufficiently experienced auditors to complete more complex work as well as provide coaching and support to trainees. A change in the skills and experience of the internal audit team was also seen as a route to being able to provide real-time assurance and to innovate, with some respondents welcoming trainees but noting a reduced ability to address strategic issues when a team is reliant on new entrants.

its 2019 report on local authority governance, the National Audit Office (NAO) identified that there was a decrease of 3.2% in real-term spending on corporate support services by local authorities from 2010/11 to 2017/18. Internal audit has faced similar levels of budget reduction, and the trend has continued. Other parts of the public services have also faced resource pressures.

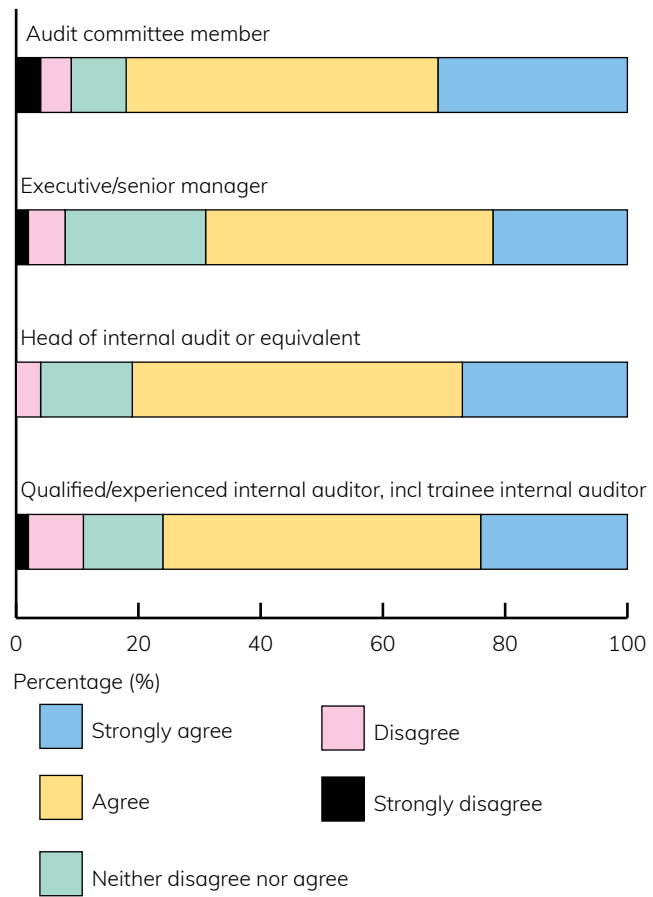
The capacity of internal audit functions in local government has decreased significantly at a time when the challenges and risks facing the sector have increased massively.

Local government survey respondent

Skills, experience and internal audit approaches

It may be that for many organisations, the overall budget for internal audit – and therefore the quantum of audit days – is in the gift of the leadership team, but how that budget is used and the skills available to deliver the internal audit plan are the responsibility of the head of internal audit or internal audit provider.

Views on skills and experience are notably more positive than views on resource capacity across all groups of respondents.



Internal audit has the skills and experience to provide the service the organisation requires. View based on role of respondent.

We also asked respondents if any tools or approaches were not currently used by their internal audit function that would be beneficial. Use of analytics within the internal audit approach significantly outweighed other tools and approaches. As with other skills and experience, this will require investment in the internal audit team to develop analytical skills, provide the right tools and embed analytics into the internal audit approach.

In addition to greater integration of analytics, survey respondents identified the following approaches as being of benefit to their internal audit function.

- Real-time assurance
- Sharing insight on good practice or comparisons with other organisations
- Assurance or advice on major change
- Identifying opportunities or efficiencies as well as control weaknesses or risks
- Sharing information on emerging risks and issues that could impact the organisation.

Internal auditors and their stakeholders recognise the fast pace of change, and that internal audit needs to keep ahead to best support the organisation. This results in the need for internal audit to:

- provide assurance on emerging issues and areas of change or transformation
- be equipped to play a constructive yet independent advisory role
- respond to the pace of change by providing real-time assurance
- understand and adopt new technologies
- maintain the ability to provide a core assurance on business-as-usual risks and operations.

This does not mean that internal auditors need to be experts in every topic, but that the wider team has appropriate analytical, critical thinking, communication and risk-based auditing skills to be able to approach those topics. The role of internal audit could also be to understand other assurance that's available and any potential gaps in assurance. This assists the head of internal audit in developing the internal audit plan, but also management and the audit committee when considering the quantum of assurance and any additional assurance required. For example, while cyber risk was an area that nearly two thirds of respondents identified as an area where assurance will be required, this does not mean that internal audit will have the in-depth subject matter expertise of cyber specialists.

From our research, CIPFA has concluded that internal auditors are agreeing plans for which they have the skills to deliver. Under internal auditing standards, internal auditors should not undertake work that the function does not have the skills or experience for. However, it is recognised that the assurance needs of organisations are changing and that internal audit must be able to respond to this. Internal audit needs to be ahead of the organisation to help it understand its risks and to plan focused assurance on emerging issues, transformation and strategic objectives, and therefore there is pressure on internal audit to progress, evolve and address new areas, as discussed later in this report.

We need to be realistic about the skills we expect from internal audit. Our subject matter expertise is auditing; we cannot expect to be subject matter experts in every topic we audit. Internal audit teams need core skills that include risk-based internal auditing that can be applied to any topic, financial literacy, technological capability and data literacy.

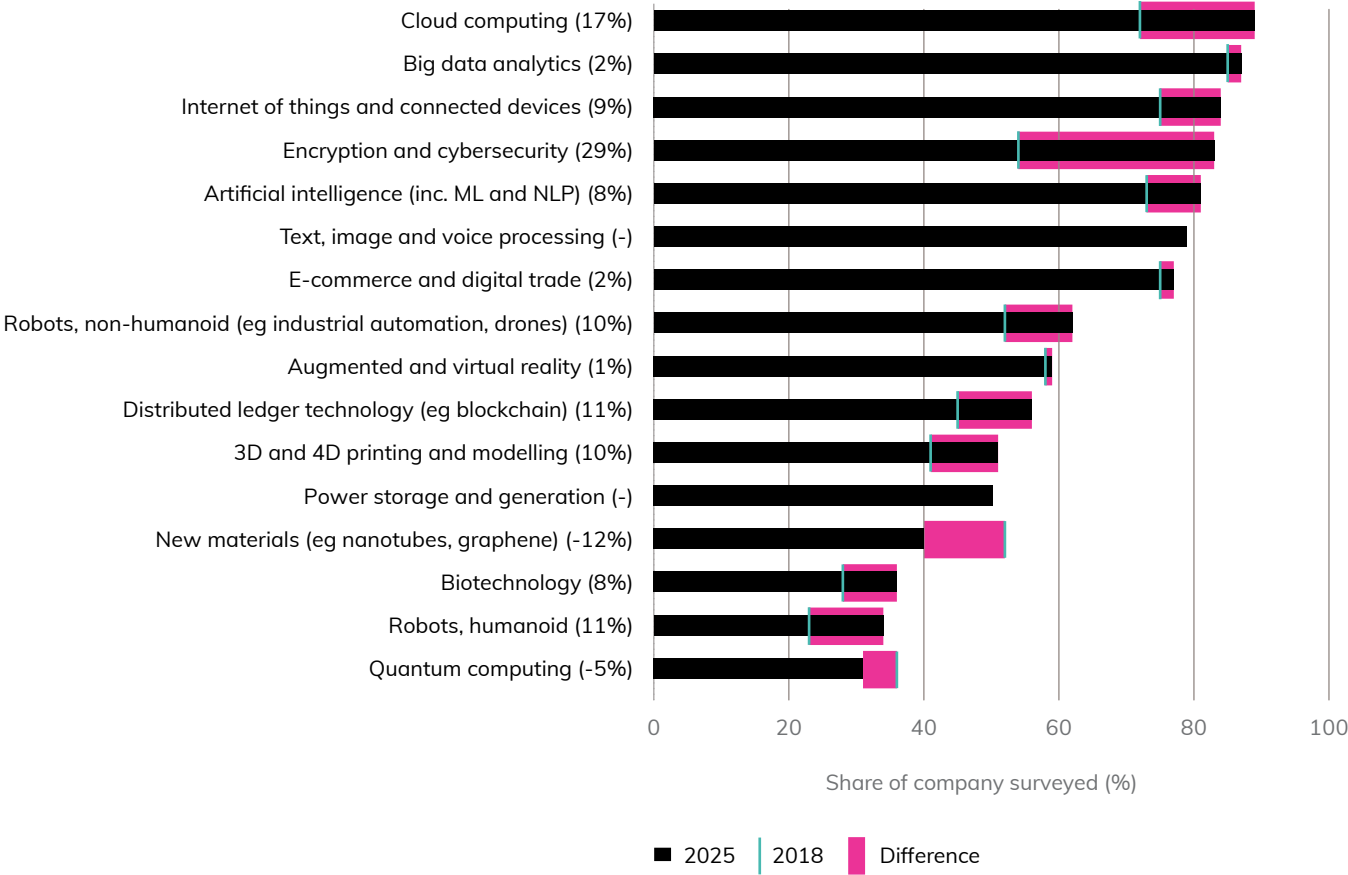
Stan Farmer, Chief Auditor, The Open University

The wider economic view of skills and roles required

In its 2020 report on the future of jobs, the World Economic Forum (WEF) noted the technologies that companies thought were likely to be adopted by 2025, reflecting the need for internal auditors to keep pace with the use of data and digitisation in their organisations.

The same report notes that there is an expected demand for data analysts and data scientists, machine learning specialists and big data specialists. This reflects the suggestions for future coverage by internal audit as seen earlier in this report, indicating the ever-growing use of data and technology and the corresponding need for assurance providers to be able to work with data.

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Technologies likely to be adopted by 2025 (by share of companies surveyed).

Source: [The Future of Jobs Report 2020](#) (World Economic Forum).

Attracting recruits to the profession in the public services

Another factor holding internal audit back is the challenge of recruitment and retaining the right skills within the internal audit function. While views on levels of resources and how those resources are used varied across respondents and those participating in roundtable discussions, one theme was common in discussions and interviews: the challenge of attracting and retaining quality internal auditors.

We need internal audit to be seen as a valuable career route for the benefit of the profession and the organisations in which we audit.

Glen Bissett, Senior Financial Auditor, Scottish Prison Service

Survey respondents shared insights into the challenges of recruiting to the internal audit function and the ability to match the nature of internal audit coverage with appropriate skills and resources. There was also feedback that some small internal audit teams are only able to deliver a basic assurance plan covering the bare minimum, which can impact the desirability of a role within that function, leading to challenges in recruiting or retaining the right staff.

Based on our research, CIPFA's view is that there are four key factors impairing internal audit's capacity and ability to recruit, retain or procure the required skills.

Key factors impacting internal audit's capacity and ability to procure and retain the required skills

Continuing development of the internal audit team

- Lack of funding to improve knowledge and skills, which can impair internal audit's ability to build skills in emerging areas such as analytics.
- Training budgets are often the first to be cut.
- Challenges in arranging secondments or guest auditors to augment the skill set of the existing internal audit team. Obstacles exist around the desirability of such opportunities or the capacity of other departments to release staff to internal audit.

Attracting people to the audit profession

- The need for more apprentices and school and university leavers to join the internal audit profession (and indeed the external audit profession).
- Consideration of how internal audit can be part of a wider career path, so that internal audit skills are seen as a beneficial experience for other roles and internal audit teams can benefit from specialist knowledge other than internal auditing.
- Training and qualifications for internal auditors need to reflect the skills that the auditors of tomorrow will require.
- Concerns that in some parts of the public sector, there may be a disparity between pay/grading for internal auditors compared with their peers in accountancy roles.

Culture

- Lack of recognition of the advisory or consulting capability of internal audit can impact the morale and retention rates in the internal audit team.
- Some internal audit teams are looking to strengthen skills in particular areas where the organisation is perceived to be weak (implying there was an expectation that upskilling internal audit teams would help compensate for lack of skills in the wider organisation).
- The need for management to address the findings from internal audit reports.
- The varied profile of internal audit within organisations. For some, this can impede internal audit's access to top management.
- Some organisations have a culture of tolerating internal audit rather than using and seeking internal audit and assurance.

Behaviours and soft skills

- Internal audit functions need the right behaviours and softer skills as well as technical competencies, including strategic thinking, and the ability to work proactively, flexibly and at pace.

Recent and forthcoming action:

CIPFA recently updated the syllabus for its Professional Accountancy Qualification, which contains greater content that will be relevant to internal auditors compared with previous iterations. The qualification is also available as a Level 7 apprenticeship.

Future plans:

- CIPFA and the CIIA have agreed to work together to raise the profile of the profession in the public sector.
- CIPFA and the CIIA will support the profession in the public services through encouraging different routes into the profession. The institutes will undertake research on career paths and routes into internal audit to help develop sustainable teams, including for guest auditors or professionals who join internal audit later in their career. This should also help raise the awareness of internal audit, its benefits and its purpose.

Recommendations:

- Organisations should ensure that the responsibilities of internal auditors are recognised – for example, the need to engage at a senior level and have access to commercial and sensitive information. This may warrant a review of role or pay/grading structure and should recognise the unique role of internal auditing rather than simply reflecting line management responsibilities and comparisons with accounting colleagues.
- To build sustainable career paths for internal auditors, heads of internal audit, senior management and audit committees should recognise opportunities for models such as secondments, guest auditors and rotational programmes to support internal audit's skills needs. Rotation of staff within the organisation could also help to build awareness of the benefits and the purpose of internal audit.
- Internal audit functions should develop not only a plan of the audit work they will undertake, but also a strategy for their function's development and how it will flex to meet the future needs of the organisation. This is likely to include the nature of the work, the tools and skills required to undertake it and resources. This should be agreed with top management and the audit committee and progress reported on as part of the quality and improvement programme of the function.
- Where an individual manages the internal audit team and delivers the responsibilities of the chief audit executive as set out in PSIAS, the responsibility of the head of internal audit should be recognised in terms of job title, ability to present to senior management committees and meetings, and access to the most senior personnel.

The majority of our training budget goes to support our trainees. Experienced internal auditors get very little targeted or personalised training or development.

Internal Audit Manager, the public sector

Selecting the right model of internal audit

Internal auditing standards apply to any internal audit service, regardless of the model employed, but do not mandate the model that should be used. There are several different models of internal audit service.

- In-house – the internal audit service is provided by a team of people who are employees of the organisation.
- Outsourced – the internal audit service is provided by a team of people who are not employees of the organisation. This may be through a shared service, a formal commercial contract or another partnership arrangement.

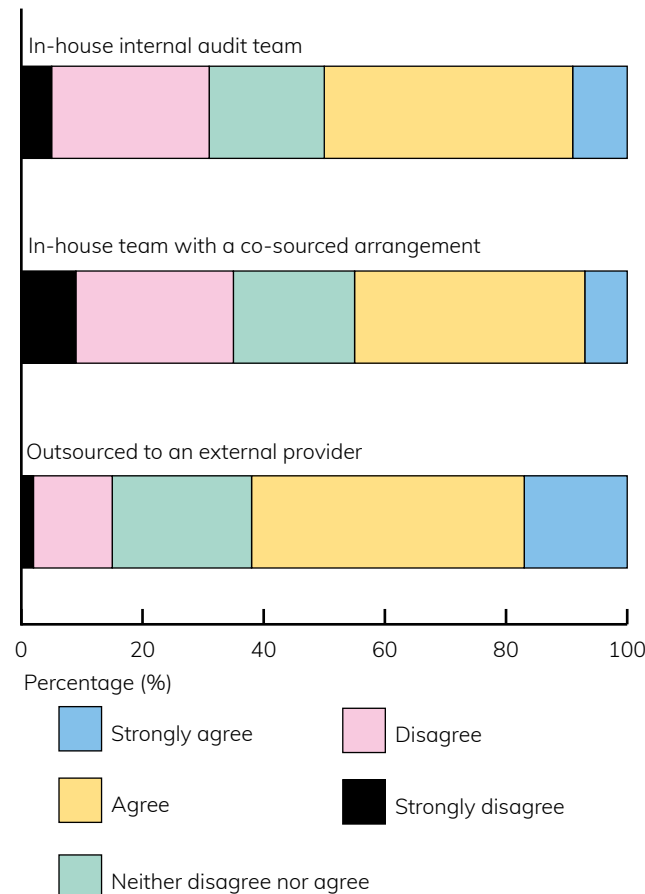
• Co-sourced – an in-house internal audit service that secures some of its resource from external parties. This may be on an ad hoc basis or a formal partnering contract or arrangement. This is often a model used by in-house teams to procure particular expertise or skills to augment the existing team.

Our survey did not demonstrate that one model has clear strengths or weaknesses above the others. There were, however, some individuals with strong preferences for a particular model of delivery.

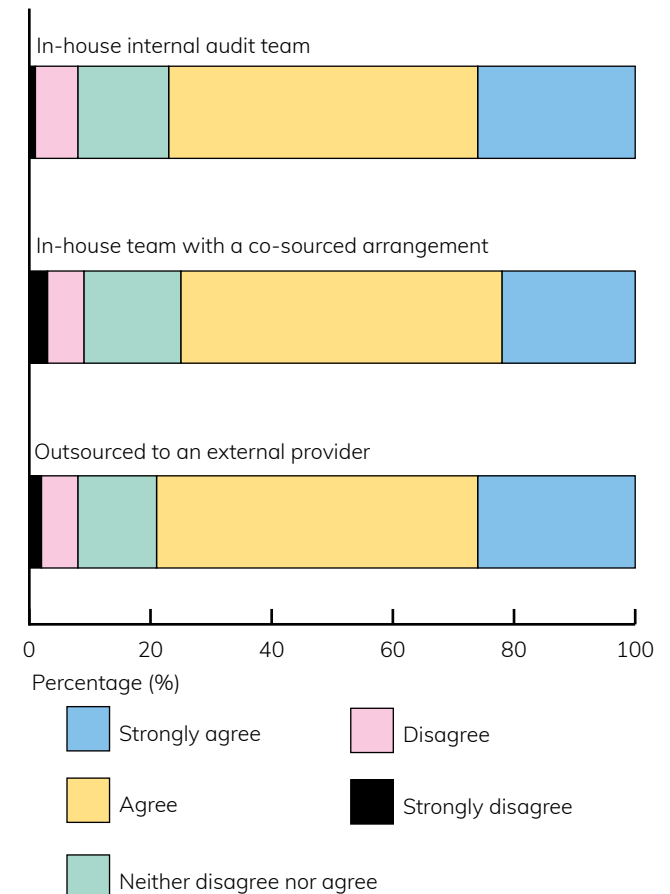
Our survey respondents reported that outsourced services have greater capacity, but there was little difference in views on the skills and capability across different models. As noted earlier, survey responses reflected a greater perception of advisory work from in-house internal audit teams compared with outsourced services.

When comparing views on the available resources based on the model of internal audit, an outsourced service has stronger capacity. Given these responses come from individuals who provide such a service or have likely been involved in procuring that service, this may not be surprising,

given most tenders are based on a view on the overall quantum of resource to be delivered, and therefore, in effect, are an agreement on the level of assurance that the organisation will receive.



Internal audit has the resources (capacity) to provide the service the organisation requires. View based on internal audit resourcing model.



Internal audit has the skills and experience to provide the service the organisation requires. View based on internal audit resourcing model.

All models can be made to work, but the organisation must be mindful of what it needs to do to make its chosen model work. When selecting a model, the focus should be on what assurance is needed to facilitate informed prioritisation of coverage and the skills and quantum of assurance, not what assurance can be afforded in the allocated budget. Organisations that have a good understanding of their assurance requirements and priorities will be better placed to make an informed decision about the nature of internal audit required and the best way to deliver that.

Although there are three broad models – in-house, co-sourced and outsourced – some shared service and audit partnership models try to operate in a similar way to in-house teams, for example by basing a permanent team within an organisation, supplemented with flexibility and support.

This table below sets out broad advantages and disadvantages of in-house and outsourced models. The exact operational arrangement may, in practice, bridge both models.

Advantages	Disadvantages
In-house internal audit	
Better knowledge of the organisation and people within it.	Many internal audit teams are facing challenges in recruiting quality candidates with the skills required.
Easier to build effective working relationships with a constant presence.	The smaller the audit team, the more challenging it will be to have all the skills required within that team.
An effective internal audit department can be used as a secondment to support management development programmes.	The risk of long-tenured team members may lead to impaired objectivity and innovation.
Regular liaison with other internal assurance functions and management.	Small internal audit teams in particular may find it difficult to provide succession and promotion opportunities.
Some heads of internal audit have a role in the management team and are therefore present for discussions on emerging issues and determining how internal audit can best support the organisation as priorities change.	Unplanned absences can delay the internal audit plan and impact service delivery.
If the internal audit budget allows for consultancy/advice, this can be provided as part of a budgeted cost rather than an additional fee.	

Advantages	Disadvantages
Outsourced internal audit	
Able to share good practice and lessons learned observed in other organisations.	Lack of clarity over responsibility and accountability for internal audit and assurance.
Able to provide benchmarking or comparative data from similar organisations.	There may be reluctance to provide formal assurance opinions on certain topics.
More options and flexibility to provide staff or subject matter expertise.	The risk that management will not perceive their responsibility for maintaining an effective internal audit function.
A shared service model could allow for staff to be based predominantly with one client and therefore to build knowledge of the organisation.	The organisation may not engage as effectively with an external provider.
	Lack of organisational knowledge, including of the culture of the organisation.
	A contract manager or key contact is still required to ensure effective liaison between the organisation and the internal audit provider.
	The risk of high staff rotation leading to lack of familiarity with the organisation.
	A focus on price rather than quality when contracting for an outsourced service may prohibit extensive input from senior staff or specialists.

A co-sourced internal audit service is one with an in-house team that also has an arrangement to draw on resources from an external provider. In many ways, this helps the internal audit service reap the benefits from both the in-house and outsourced models; in particular, a co-sourced arrangement provides access to additional staff and subject matter expertise. Intelligent procurers of co-sourced services will also seek to ensure skills and knowledge transfer between the external and internal teams, and to obtain to share insights and experience from the co-sourced partner's wider client base.

Managing internal audit independence

Independence and objectivity are essential to effective internal audit. Some of the barriers discussed below may be factors of perception, which can then impair stakeholders' views on the quality of internal audit.

Roles beyond internal audit

Fifty percent of the heads of internal audit who responded to the survey have other responsibilities as well as leading the internal audit function. This figure rises to 60% in local government.

Of the additional responsibilities that heads of internal audit have, the most common were:

- risk manager
- head of counter fraud
- governance.

There was also a range of additional roles for heads of internal audit who have a clear second-line function, such as business continuity, health and safety, insurance and data protection. Internal auditing standards provide guidance on how such additional roles should be managed and risks to independence and objectivity communicated.

It was surprising to find some heads of internal audit state they had responsibilities for operational areas such as procurement, council tax or debtors, meaning those heads of internal audit would have to find other approaches to providing assurance on those areas rather than providing the assurance themselves.

Chief audit executive roles beyond internal auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

Extract from the International Standards for the Professional Practice of Internal Auditing and the PSIAS

Recommendation:

Organisations should minimise or avoid passing on additional roles to the head of internal audit. Where heads do have roles beyond internal auditing, there must be adequate safeguards in place to preserve independence in accordance with the standards. For example, a budget should be provided to fund the commissioning of internal audit assurance in those areas that come under the responsibility of the head.

One concern flagged by clients was that internal auditors may impair their independence by undertaking advisory or consulting work. The consulting role of internal audit is set out within PSIAS, as are a number of safeguards. The head of internal audit must take a balanced view on priorities that can be delivered with the available skills and resource, and for some internal audit teams, this may preclude significant amounts of advisory work. Undertaking advisory work can also mean that internal audit cannot provide formal assurance around that area. Internal auditing standards state that internal audit can provide assurance where it has previously provided consulting services, provided the nature of the consulting input does not impair objectivity and steps are taken to manage individual objectivity when assigning team members to the audit – something that will be easier to manage for larger internal audit functions.

However, many internal auditors undertake advisory work below the radar, such as sitting on project or steering groups as an observer or critical friend. There is a need for internal auditors to communicate more, not only about these activities but also the benefits they bring to the organisation.

A third factor was also present in concerns about internal audit independence and objectivity: the fact that some internal auditors have been in post for many years. In its Internal Audit Code of Practice, the CIIA recommends:

“Where the tenure of the chief internal auditor exceeds seven years, the audit committee should explicitly discuss annually the chair’s assessment of the chief internal auditor’s independence and objectivity”.

This does not mean that long-serving heads of internal audit lack independence or objectivity, but that the audit committee should have greater understanding of the risk of over-familiarity and actions to mitigate that risk. This code does not apply to the public sector but will be relevant to third sector and not-for-profit organisations aligned with the public services.

Internal audit reporting lines

When commenting on organisational independence, both global internal auditing standards and PSIAS state that the head of internal audit “must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities”. The standards go on to explain the nature of internal audit’s relationship and interactions with the board² (and/or audit committee). The PSIAS go further, setting out an explicit expectation about access to the chief executive and chair of the audit committee.

The chief audit executive³ must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive and the chair of the audit committee.

Public Sector Internal Audit Standards

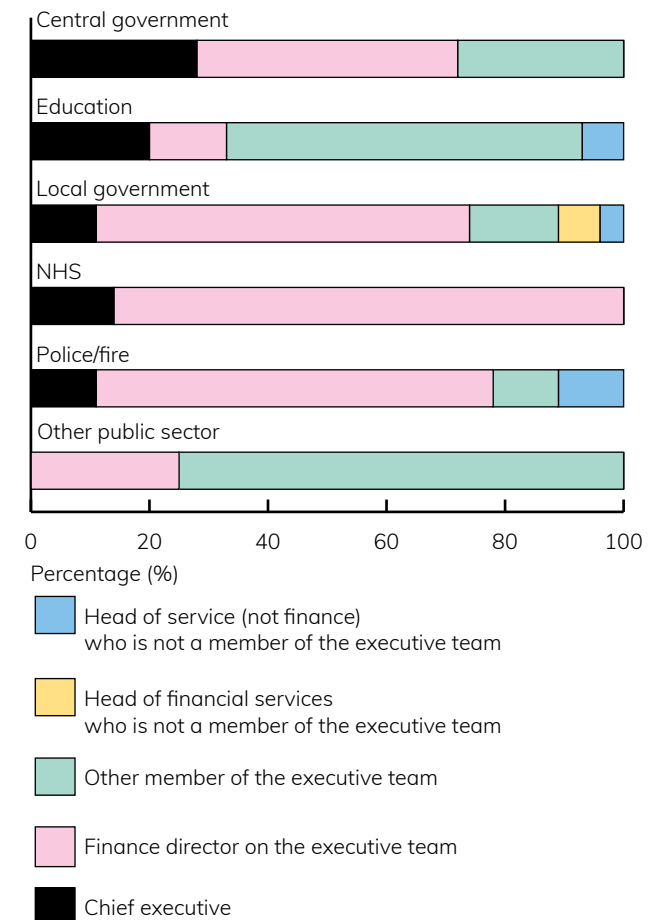
We asked heads of internal audit about their functional and administrative reporting lines. It is recognised that many heads of internal audit in effect have two reporting lines: one within the management structure and one to the audit committee.

² Internal auditing standards recognise that for most organisations, this role will be discharged by the audit committee on behalf of the board.

³ Internal auditing standards use the phrase ‘chief audit executive’ for the person who leads the internal audit function. In many UK public sector organisations, this role will be known as the head of internal audit, chief internal auditor or similar.

Reporting lines within the management structure

The traditional internal audit reporting line to the chief financial officer remains a common model. As shown below, there are significant differences in typical internal audit reporting lines across sectors:



Analysis of reporting lines by sector.

We noted in roundtable discussions and survey responses that there remains a perception that internal audit in local government must report to the section 151 officer. As the NAO reiterated in its 2019 report on local authority governance, the legal responsibility for maintaining the system of internal control, including arrangements for the management of risk and an effective internal audit, lies with the elected council members, and therefore responsibility no longer rests solely with the section 151 officer. Comments were also made that for some local government and policing organisations, it was perceived that section 151 officers benefitted more from internal audit and that there should be clear emphasis on internal audit being for the wider organisation and not solely focused on financial control. This also reflects the various views we heard from management on their expectations from internal audit, ranging from an appetite for assurance on core systems only through to managers who were actively seeking greater engagement and focus on wider strategic risks and priorities.

Our analysis showed no apparent correlation between reporting lines and whether the internal audit service was provided in-house or through an outsourced provider.

... while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

Extract from CIPFA's Financial Management Code

CIPFA's guidance on the role of the head of internal audit says that heads of internal audit must report functionally to a member of the leadership team. In total, 9% of heads of internal audit told us that they do not have a reporting line into the chief executive or a member of the executive team. This could mean that the leadership team lacks understanding of the role of internal audit and the audit team lacks engagement with its principal client.

Reporting line to the audit committee

Eighty-six percent of heads of internal audit confirmed that they have a formal reporting line to the chair of the audit committee, meaning 14% do not have this formal reporting line. This could mean that the head of internal audit's ability to report independently to the audit committee is compromised.

Recommendation:

As a minimum, the head of internal audit should report to a member of the executive team for administration purposes and also have a reporting line to the chair of the audit committee.

Audit committees

Low expectations by audit committees are another factor in holding back internal audit from fulfilling its potential. This is in part due to the weakness of some audit committees in some public bodies.

Role and oversight

The role of the audit committee is vital in setting the expectation within the governance structure for risk-based assurance on strategic priorities. It is also key, alongside senior management, in setting the expectations for internal audit's performance.

The third of respondents to our survey were ambivalent or negative about their audit committee providing robust oversight, although 95% of heads of internal audit said they felt the audit committee listened to them.

CIPFA's own research on audit committees in local government has identified that while committees are supportive of the work of internal audit, they are less effective in providing professional oversight and providing challenge.⁴ This was mirrored by some survey respondents who commented that management needs to be better at responding to internal audit recommendations and that the audit committee has a role to ensure action is taken.

Some audit committee chairs and heads of internal audit have regular meetings, and discussions between meetings, along with private sessions between the audit committee and head of internal audit before or after committee meetings.

However, this relationship is not in place for all. Some audit committee chairs have had to push for private meetings to be included in the committee's terms of reference.

Recommendation:

There should be regular private meetings between the audit committee and the head of internal audit with no management present. If such meetings are diarised, this avoids either party having to ask for such a meeting to be arranged before/after a planned committee meeting, which can create an expectation that significant issues need to be discussed. Such meetings should not prevent there being open and regular communication between the head of internal audit and audit committee chair throughout the year and between committee meetings.

Independent audit committee members

Another factor raised at roundtable discussions was the potential for political bias at local authority audit committees and the appointment of independent members to those committees.

In 2019, the NAO emphasised the benefit of independent audit committee members, in particular as chair of the committee. The 2020 [Redmond Review](#) noted that 56% of local authorities had no independent member on the audit committee. One of the recommendations from the Redmond Review was that the governance arrangements within local authorities be reviewed by local councils to consider appointing at least one suitably qualified, independent member to the audit committee.

It is noteworthy that several local government participants in our roundtable discussions commented on the audit committee being perceived as a low-status committee role in some authorities. Local government respondents were the least positive regarding the effectiveness of audit committees. While some committees in this sector are clearly high performing, others were described in survey responses as ineffective, with members who were not engaged or interested.

While Redmond's recommendation focused on encouraging the appointment of at least one co-opted independent member, there has been considerable activity since. A working group of the Local Audit Monitoring Board (a board commissioned by the Department for Levelling Up, Housing and Communities (DLUHC)) was set up to look at this recommendation, among others.

New guidance:

CIPFA published [strengthened guidance on audit committees](#) in April 2022.

The Position Statement emphasises the role that audit committees should have in the oversight of internal audit and ensuring accounts are prepared to a high standard, alongside broader changes including the appointment of independent members.

In Wales, there has been a requirement since 2011 to have at least one lay member on council audit committees. New legislation through the Local Government and Elections Wales Act 2021 means there should be one-third lay members and a lay member as chair.

⁴ CIPFA survey of audit committees in local authorities and police (2016).

Role of the audit committee with respect to internal audit planning

Through roundtable discussions, we noted different approaches to internal audit across different organisations. There were differing views on the role of the audit committee regarding the internal audit plan. This varied from audit committee members who considered it their role to determine what the internal audit plan should be, potentially reducing the independence of the head of internal audit in determining internal audit priorities, through to committees that agreed plans they were not fully happy with.

While the audit committee should approve the internal audit plan, the plan should ultimately be the work of the head of internal audit setting out their independent view of the assurance priorities for the organisation. The plan should be developed according to the strategic priorities and risks of the organisation, and by consulting key stakeholders such as management and the audit committee. While the audit committee will be asked to approve the plan and may request additional topics or challenge why certain areas are flagged as priorities, the plan should remain a reflection of the head of internal audit's view of the organisation's assurance needs. It should also reflect how internal audit can help address those assurance requirements.

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

Public sector requirement from PSIAS

If we are looking for rigour and added value, we can't have peer reviews for our internal audit external quality assessment.

If organisations are not prepared to spend once every five years on this type of review, what does that say about how they view the importance of a quality internal audit service?

Vice Chair, of a London local authority audit committee

Assuring the audit committee on internal audit quality

The quality of internal audit must include conforming with relevant professional standards. Both the PSIAS and the International Standards include a requirement for an independent external assessment of internal audit to be undertaken at least once every five years.

Several roundtable participants had received a review or had been involved; others were aware of the requirement, but budgetary constraints prevented such an external assessment from being progressed. Several authorities, particularly in local government, have undertaken peer reviews as a route to an external assessment. Some participants were concerned that this does not add the value that a truly independent review would and may miss the opportunity to share new practices and ideas, as well as potentially being less rigorous.

Agreed action:

CIPFA and the CIIA will consider the operation of the quality assurance and improvement programme in the public services and consult with the Internal Audit Standards Advisory Board.

Lack of understanding of assurance – immature first and second lines

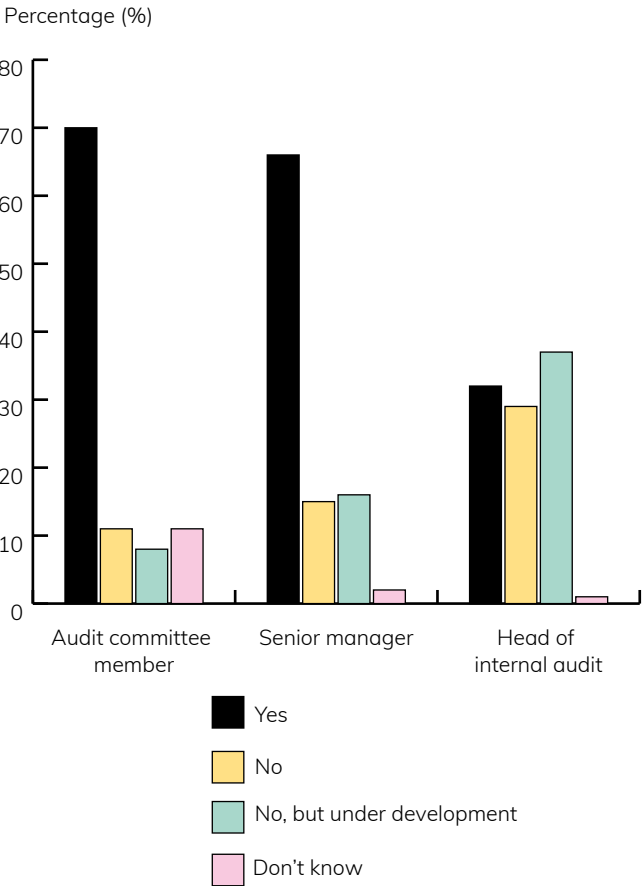
Internal audit will have the greatest impact in organisations that understand and embrace assurance. We look below at some of the organisational factors that can hold internal audit back.

A holistic view of assurance?

Assurance is a key element of the governance and risk management framework. It provides information and feedback to help management and the audit committee understand the effectiveness of the internal control framework and the robustness of risk management arrangements. The independence of assurance is also a key factor. Typically, organisations will have assurance activity within the first line (front-line activities and the role of management), the second line (functions such as risk management, compliance and health and safety), with internal audit as the most independent source of assurance referred to as the third line.

An assurance framework is a structured means of identifying and mapping the main sources of assurance in an organisation, and co-ordinating them to best effect.

Assurance frameworks, HM Treasury, 2012



Has the organisation identified how it obtains assurance across the full range of its activities (sometimes called an assurance framework or assurance map)? Responses by role.

CIPFA was keen to understand the wider culture of risk management and assurance within the public services, and therefore the context in which internal audit is provided. We asked respondents about the status of an assurance framework or similar mechanism within their organisation.

When asked if the organisation has identified how it obtains assurance across the full range of its activities, clients were significantly more positive than heads of internal audit. This may be for a number of reasons, including the understanding of what constitutes an effective assurance map, or that internal auditors may have higher expectations on the formality of such an exercise.

Of all respondents, only 48% confirmed that their organisation had identified how it obtains assurance across the full range of its activities. This is surprisingly low, given the concept of assurance maps or frameworks has been in use for over 20 years. The most positive responses came from NHS, police and fire respondents.

Sixty-four percent of respondents noted that internal auditors worked with risk colleagues to support assurance maps and identify and understand different sources of assurance.

There is a need for audit committees to have a key role in overseeing the assurance framework, with internal auditors being integral not only to delivering assurance, but in collecting information and assessing the robustness of other assurance activity to help the committee's understanding of the assurances available to the organisation. Through this approach, the audit committee acts as a sponsor alongside senior management and can help create a culture of seeking assurance, feedback and continual improvement to support risk management and decision making.

Internal auditors have a vested interest in an effective assurance framework and a robust three lines of assurance within the organisation. Twenty-five percent of respondents thought that internal audit could be more effective if other formal assurance activity in the organisation was developed (either first or second line).

Some heads of internal audit noted that where there is no second line of assurance, or where second line functions are weak, internal audit functions can end up filling that gap by providing compliance-focused assurance. This may mean less internal audit resource is available for risk-based assurance on strategic priorities.

Especially, organisations that do not share a good understanding of their assurances across management, the audit committee and internal audit can be less confident that they have robust control arrangements in place. The lack of clarity means it is more difficult to make full and effective use of internal audit.

Working with other assurance providers

The survey considered internal audit teams' work with other assurance providers and the results showed less awareness of this area of activity among clients.

Sixty-eight percent of heads of internal audit are working with risk management colleagues to understand other assurances available to the organisation. Fifty-nine percent of clients said this was happening in their organisations.

For some organisations, there will be shared working, partnerships or joint ventures with third parties that could necessitate internal audit teams from different authorities working together. Forty-nine percent of heads of internal audit said they are working with internal audit teams from other organisations.

Recommendations:

- Internal audit plans should set out what other assurances are available and any work internal audit has undertaken to consider the reliability/scope of those assurances. If internal audit has not undertaken any such assessment, this should also be noted. For example, the internal audit plan could include a different aspect of the second line each year to provide assurance on those functions.
- CIPFA will be publishing guidance on assurance frameworks in autumn 2022. While internal audit has an important part to play and significant insight to bring to the framework, the framework itself should be owned by the organisation, typically with sponsorship and oversight from the audit committee.
- Organisations should use CIPFA's guidance to review and improve their assurance arrangements.

For audit committee members, an assurance map gives you a clear view of the assurance you need, and where and how that is provided. Where the second line is mature, internal audit can be freed up to focus on more strategic areas.

Clare Minchington, Chair of the Audit and Risk Assurance Committee, Government Internal Audit Agency

The impact of external audit disruption on organisations and internal audit

The assurance available to some public sector organisations has changed since the Audit Commission was abolished in 2015. The scope of input, quality and timeliness of external audit has changed. The external audit of local government and health bodies in England has experienced a period of disruption that goes beyond the impact of the COVID-19 pandemic. The problem has been most acute in local government, where audits are undertaken largely after those on health bodies are completed.

The root of the problem is the change to a market provider model, where firms compete for contracts. Although local audit clients have audit arrangements in place, firms have been unable to deliver in accordance with contract expectations. The reasons for this were examined in the [Redmond Review](#) in 2020.

Following the Redmond Review, the government is taking steps to improve the resilience of the public sector external audit market and address the report's recommendations. As of spring 2022, the local audit arrangements are still fragile and are likely to remain so for a while.

In some bodies, working relations between the external auditor and client have become strained because of these difficulties. While most bodies initially welcomed reduced audit fees, there has been frustration with delays and the reduced value that the audit process has offered. External auditors themselves report dissatisfaction with the arrangements, citing a lack of understanding of the audit process among audit committees, low fees and a lack of regard for audit findings.

Some internal auditors have reported that they have little contact with external auditors. The reduced reputation of external audit in the local government community and less interaction between the auditors also contributed to the difficulties faced by internal audit teams. Recent events, where the consequences of poor governance and poor financial management have been exposed, have created a greater understanding of the need to invest in and support internal audit alongside other aspects of corporate arrangements. The changes to the reporting on value for money introduced by the NAO from April 2020 onwards are helpful, as they create a narrative on the strength of local arrangements.

There are opportunities for internal audit to interact more with external auditors to share findings and conclusions. To make a real success of this opportunity, the local audit market needs to be more robust.

The quantum of internal audit resource and assurance

'How much assurance is enough?' is perhaps the million-dollar question, and one to which there is no simple answer. The amount of coverage varies from organisation to organisation and is informed by various factors such as the size and complexity of the organisation, appetite for assurance, and the remit of the internal audit function. This will, in turn, determine the volume and nature of internal audit work and its ability to have an impact.

Appetite for assurance

As already seen, many respondents felt that internal audit has sufficient resources to provide the service the organisation requires. Some roundtable participants challenged the perception of the quantum of assurance required and that organisations may need more assurance than they appreciate. Therefore, there may be a gap between the assurance the organisation has agreed and the level of assurance it needs to obtain sufficient feedback and comfort on key risks, priorities and systems.

The quantum of audit provided is perhaps the most challenging question for management and the head of internal audit, and it is not easy to set out a de minimis level that would work for two similar organisations, as there will be many factors that affect the risk profile and assurance needs of two organisations that, from the outside, seem similar.

Questions around this may therefore cover areas that are not always easily quantifiable.

- How much assurance do I need to provide to support the annual internal audit opinion? What areas of coverage should that include?
- Is there an imbalance between the assurance I believe is needed by the organisation and what we are able to provide?
- What change or transformation is occurring and where would assurance or advice from internal audit be useful? How do we maintain a balance between assurance on business as usual and areas of change and development?
- What other sources of assurance exist? Does the scope of these support the work of the audit committee and is that assurance robust and reliable?

One of the main factors in different levels of assurance is the wider organisation and the budget and resources available for internal audit, likely linked to attitude to assurance and previous impact of the internal audit function. From group discussions, it is possible that difficult conversations will be needed around priorities, coverage, resources and internal audit's ability to deliver a more strategic plan.

Smaller internal audit teams noted that networking and maintaining relationships with senior management is important, but more challenging when the size of the internal audit plan does not allow for internal audit to do more than a minimum assurance plan – an interdependency between resources, impact and engagement with the organisation.

Recommendation:

Internal audit plans should provide information on any areas not included within the plan and where the head of internal audit believes that assurance may be required. This should include an explanation of the rationale for non-inclusion, which can be used to inform discussions around prioritisation of the use of internal audit resources to facilitate a meaningful discussion with the audit committee.

Impact of the pandemic

The question of how much assurance is needed has been a particular focus during the pandemic. From March 2020, the amount of internal audit delivered was impacted in many organisations, with internal auditors often redeployed to support the first line elsewhere in the organisation. For some local government and NHS organisations, this meant halting the internal audit plan for April to summer 2020, with further redeployments and delays during infection surges in winter 2020/21 and 2021/22.

Thirty-six percent of respondents said that their internal audit plan had been suspended for a period of time. Fifty-four percent noted that at least some of the internal audit team was redeployed to other roles. Eighty-five percent of internal audit plans were flexed to respond to emerging risks and priorities relating to the pandemic. One of the challenges of such disruption is the impact on the ability to provide an annual internal audit opinion. Guidance was provided by the IASAB, CIPFA, GIAA and HFMA for internal auditors across different parts of the public sector. During the pandemic, many heads of internal audit had to decide what work must continue as a bare minimum to be able to give an annual internal audit opinion.

During the pandemic, internal audit team members were redeployed in both 2020/21 and 2021/22 to support the trust where additional resource was needed. While internal audit resource was reduced, we pivoted the work of remaining team members to provide quick-response advisory reviews on emerging issues such as the setup of a Nightingale Hospital. Even when the team returned to internal audit, delivery of the plan was challenging due to pressures on frontline personnel and management.

While I determined how much assurance I needed to support my annual opinion during the pandemic, these were exceptional times. As a profession, we must acknowledge that the reduced quantity of assurance is not sustainable to routinely support an opinion in the longer term.

Mike Townsend, Head of Internal Audit, Barts Assurance

It was also noted that working remotely has reduced internal audit's ability (as with many teams) to have quick, informal chats with colleagues across the organisation, which help maintain effective working relationships. Others noted that greater pressure on management in response to the pandemic meant that in some areas there was less willingness to engage with internal audit.

Challenges in delivering the annual internal audit opinion

The PSIAS require public sector internal auditors to provide an annual opinion. This should inform the organisation's annual governance statement. In some sectors such as higher education, the annual internal audit opinion will be used by the audit committee in developing its own annual report to the governing body.

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Extract from PSIAS

It is the head of internal audit's responsibility to ensure that the audit plan, when taken together with other sources of assurance, will provide sufficient assurance to support this opinion. In CIPFA's experience of quality assessments, a range of approaches exist to underpin the opinion. For this report, we undertook a review using publicly available resources of the 2020/21 annual opinion provided at 33 London boroughs. This analysis reflects the variability of the nature and volume of audit work that heads of internal audit drew on when forming their annual opinion for 2020/21.

Many of the opinions reflect the considerations of the head of internal audit regarding whether sufficient work has been completed on which to base the opinion; reference was made in reports to CIPFA's guidance for internal auditors during the pandemic.

Other variations noted across those authorities' annual internal audit reports include the following.

- **The scope of the opinion given.** While relevant coverage may have been included within internal audit plans, 36% of the opinions reviewed did not explicitly mention governance or risk management in the opinion statement, therefore appearing to omit a requirement of PSIAS.
- **The scope of the organisation on which the opinion is given.** Some annual opinions appear to be based on work both at the authority's centre as well as in schools. Others were silent on this or appear to omit schools audit from their opinions, setting out schools' audit work as a separate schedule of activity.
- **The volume of audit work supporting the opinion.** Several heads of internal audit made a clear statement confirming they were satisfied that sufficient quantity and coverage of work had been undertaken to allow a conclusion to be drawn, and there were none stating they were unable to provide an opinion. There was a significant difference in the number of audits undertaken across the boroughs to support the 2020/21 opinion, varying from seven 'systems audits' and four 'schools audits' to authorities drawing on over 40 audits to form the opinion.

- **The form of wording.** Many reports remind the reader that the assurance provided cannot be absolute, and therefore only reasonable assurance can be provided. However, the specific wording of the opinion varies, and these variations include the following: "adequate and effective", "generally satisfactory", "reasonable assurance", "moderate assurance", "limited assurance", "a reasonable level of confidence", "adequate and remains robust" and "good with improvements required in a few areas". The most common conclusion wording used was "reasonable assurance".
- **The work and assurances on which the opinion is based.** Some opinions clearly state that they are based solely on work undertaken by internal audit. Others refer to consideration of risk management arrangements and other assurances available, including the work of second line functions such as anti-fraud teams. Some annual reports reflect the nature of audit work, setting out the number of assignments in year that were assurance, consultancy, follow-up or grant claim reviews, for example. Hillingdon is a useful example of this, informing the reader that the total number of audit assignments in each year has reduced by nearly a third between 2017 and 2021, although the overall number of assurance assignments has increased within that period.

Notwithstanding CIPFA's recognition that factors such as organisational complexity and appetite for assurance will impact on the quantum of audit, the variability identified in the quantum of audits underpinning the annual opinion is concerning.

Agreed action

- CIPFA will work with the CIIA and IASAB to develop guidance on annual internal audit opinions to help heads of internal audit provide an opinion and audit committees in using that opinion.
- CIPFA will consider options on how it can facilitate a thematic review of annual internal audit opinions, which will help heads of internal audit provide context and comparators with peers.

Recommendation:

For local government with education responsibilities, consider an annual internal audit report that splits out schools' audit work from the main opinion. This would make clearer the nature and quantum of assurance on which the opinion relating to the organisation's central risk management, governance and control environment is based.

As a small internal audit team covering both the police force and office of the police and crime commissioner, I proactively seek out other independent assurances and feedback that are relevant to the framework of governance, risk management and control.

The annual opinion I give each year is based on the internal audit work my team has delivered. I use the other assurances available to support and sense-check that opinion; it is a useful triangulation and also provides the Joint Independent Audit Committee with a view of the broader assurances and feedback from external parties during the year. This may include a report by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services, or assurance from another organisation's internal audit function where a service is outsourced or with whom the force collaborates.

Neil Shovell, Chief Internal Auditor, Thames Valley Police and the Office of the Police and Crime Commissioner

Organisational culture

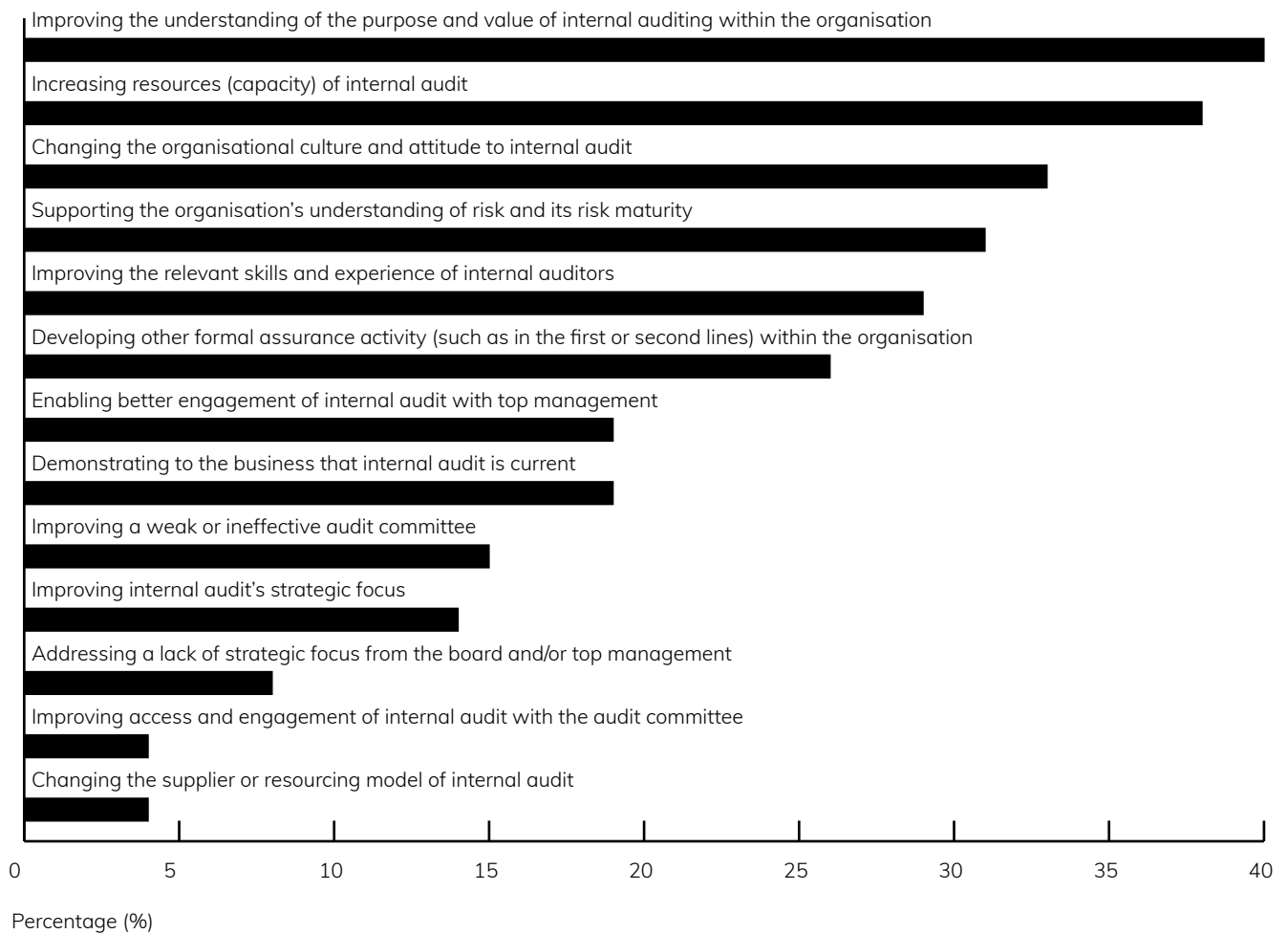
Respondents were invited to provide any additional comments at the end of the survey. Analysis of text responses highlighted that culture was commented on as much as resources available for internal audit.

Comments were shared on the scope and coverage of internal audit, and that it is important to have a culture where internal audit findings are taken as independent, objective, professional advice to be acted on and taken into consideration. The need for a risk management culture to be embedded was also shared, and the ability for internal audit to have a voice at the top table to be able to engage in new initiatives, change or transformation at an early stage. Twenty-six percent of heads of internal audit surveyed felt that their role did not have appropriate status within the organisation.

There was also recognition that greater use of data-driven tools for routine coverage should release audit resource to focus on more impactful work, including areas such as ethics and culture as well as governance.

Survey respondents shared views on what could improve the impact of internal audit in their organisation. As well as comments regarding resources and skills, the responses reflect the need for a cultural change, including one of assurance in all lines and not just by internal audit, and improving the risk maturity of the organisation.

While these areas will require buy-in from management and the audit committee, there is clearly a driver for internal audit to demonstrate its currency and that it can be strategic in its coverage and approach.

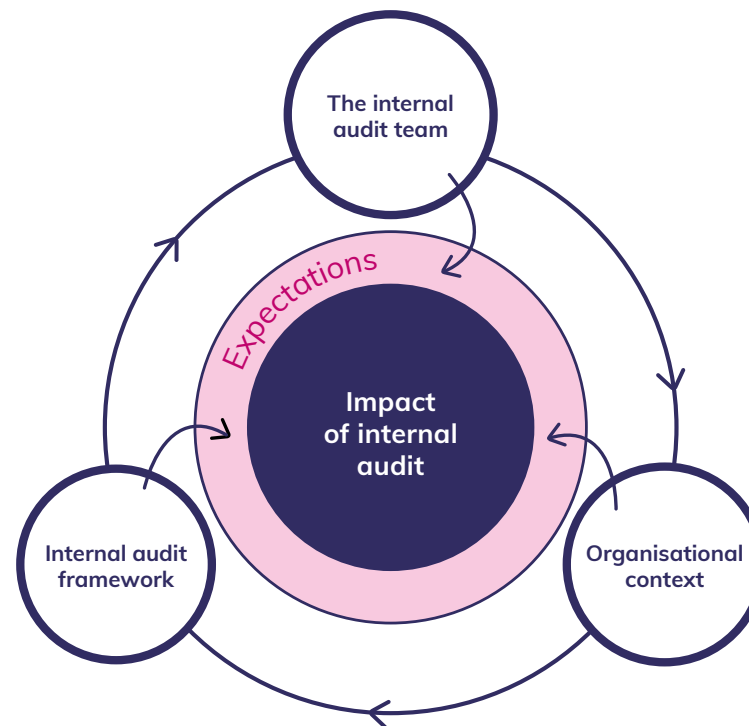


Views on what could improve the impact of internal audit in the organisation (respondents were asked to select their top three priorities).

Appendix A:

The framework for internal audit impact

The key elements of the internal audit impact model are defined below:



Impact

The ability of internal audit to support the organisation in achieving its strategic objectives and priorities. This will be through an appropriate mix of assurance, consulting activity and advice. The impact of internal audit will vary across organisations based on assurance needs, organisational culture, appetite for assurance and driving continual improvement.

Expectations

Stakeholder expectations: an impactful internal audit service will understand and manage stakeholder expectations. Where expectations of internal audit are low, the function will exceed these and raise expectations to help stakeholders understand the benefits of a modern, engaged internal audit function. Stakeholders are likely to include senior management, the audit committee and other assurance functions.

Audit expectations: internal auditors also set their own expectations in response to their professional judgement based on standards and their assessment of risks and audit needs.

Internal audit framework

Internal auditing standards: the professional framework that provides the foundation for the core quality of internal auditing. As a minimum, internal audit functions should be conforming with the requirements of these standards.

Internal audit leadership: the function must be led in such a way that it strives to make an impact, while engaging with the organisation and maintaining its independence and objectivity. The head of internal audit must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and the audit committee.

Alignment with strategic priorities: the internal audit plan should be developed to address not only the key risks that the organisation faces but also support strategic objectives and priorities. This will also entail understanding where other assurance exists around strategic objectives and avoiding duplication or gaps in assurance.

Internal audit team

Internal audit skills and resources: there should be a clear view of the skills and resources required to deliver the assurance that is needed by the organisation to support an effective governance and risk management framework. Where there are gaps, there are discussions with top management and the audit committee to understand the impact and to agree action.

Service delivery model: the selected model of delivery should enable internal audit's professional delivery to the organisation according to its needs.

Organisational context

Governance framework: the organisation has an effective governance framework and a high-performing audit committee, with members with appropriate skills and experience. There are clear and unrestricted reporting lines for the head of internal audit to the audit committee, including private meetings between the head of internal audit and the committee.

Internal audit access to senior management: internal audit has unrestricted access to senior management, including the chief executive. There is regular dialogue, and the head of internal audit attends senior management meetings to be able to best understand the changing risks and assurance needs of the organisation.

Risk and assurance culture: the organisation, led by those charged with governance, seeks assurance as an integral part of its risk management framework and the decision-making process. Assurance is used to drive improvement and is viewed as an activity that supports decision making in all aspects of the organisation, both strategic and operational. The three lines model may be used as a structure to identify and plan assurance activity.

Appendix B:

Maximising the impact of internal audit

Ten questions to ask your internal auditors

Suggested questions that senior management and audit committees should be asking to obtain the maximum impact from internal audit. Comparing views on these questions with the head of internal audit may also lead to some useful discussions.

Engagement with the organisation

1. Does internal audit receive the right level of support and engagement from the audit committee?
2. Does internal audit get good engagement from across the organisation when it plans and conducts audits?
3. Do managers within the organisation seek advice or assurance from internal audit?
What are the drivers of or obstacles to this?
4. Has the head of internal audit indicated that resources (capability or capacity) need to increase?
What steps are being taken to address this?

Quality, impact and continual improvement

5. Does internal audit conform to PSIAS as demonstrated by an independent external quality assessment undertaken within the last five years?
For local government organisations, this should also include conformance with the Local Government Application Note.
6. What action is internal audit taking to continually improve its quality, engagement and impact for the organisation?
Is internal audit considering the skills and competencies it will need in the future as well as now?

Assurance

7. Is there a clear view of the assurance that internal audit does, and does not, provide?
What assurance is provided by other functions or parties?
Are there gaps in the assurance that management or the audit committee require?

How do internal audit plans map to the organisation's strategic priorities and risks?

How is internal audit developing its approach to providing assurance – for example, making greater use of data or undertaking audits with a more strategic focus?

Strategy

10. What factors currently determine our internal audit strategy?
Are we confident that the strategy will deliver our internal audit needs in the future?

Appendix C:

References and literature considered in our research

In addition to references cited in footnotes, a wide range of literature, websites and reports were reviewed as part of this research. The following bibliography provides details of the main sources consulted and contains links to the relevant website or document for ease of access.

CIPFA resources

[Benchmarking analysis: internal audit in local government](#) (2015)

[Facing up to COVID-19 in the public sector: the internal audit response](#) (2020)

[Financial Management Code](#) (2019)

[Financial Resilience Index](#) (2022)

[Local Government Application Note for the UK PSIAS](#) (2019 edition)

[Perceptions of audit quality: a survey analysis](#) (2009)

[Position statement on audit committees in local authorities and police](#) (2018)

[Statement on the role of the head of internal audit in public service organisations](#) (2019)

Online resources

[Assurance frameworks](#) (HM Treasury, 2012)

[Assurance, reassurance and performance](#) (Good Governance Institute, 2021)

[Audit and Inspection of Local Authorities in England: five years after the Local Audit and Accountability Act 2014 – Parliamentary Academic Fellowship report by Professor Laurence Ferry](#) (UK Parliament, 2019)

[Avoiding the blind spot: supporting financial stability and resilience](#) (Chartered Institute of Internal Auditors, 2021)

[Developing an overall opinion during the pandemic crisis – considerations for 2021/22 and reflections on 2020/21](#) (Internal Audit Standards Advisory Board)

[Government Functional Standard GovS 009: Internal Audit](#) (Government Internal Audit Agency)

[Head of internal audit annual opinion: key considerations for 2021/22](#) (HFMA, 2022)

[Independent review into the oversight of local audit and the transparency of local authority financial reporting](#) (Sir Tony Redmond, 2020)

[Internal Audit Code of Practice: guidance on effective internal audit in the private and third sectors](#) (Chartered Institute of Internal Auditors, 2020)

[Local authority governance](#) (National Audit Office, 2019)

[Models of effective internal audit: how to organise a successful internal audit function](#) (Chartered Institute of Internal Auditors, 2015)

[Public Sector Internal Audit Standards \(PSIAS\)](#) (Internal Audit Standards Advisory Board, 2017)

[The Future of Jobs Report](#) (World Economic Forum, 2020)

[Value proposition for internal audit](#) (The Institute of Internal Auditors)

Legislation

[The Accounts and Audit Regulations 2015](#)

Other academic references

Domingos M. Sequeira de Almeida (2007): *The Value of Internal Audit* (first published in *Auditoria Interna*), Lisbon: Instituto Português de Auditoria Interna (IPAI)

Eulerich, M and Lenz, R (2020): *Defining, Measuring and Communicating the Value of Internal Audit*, Florida: Internal Audit Foundation

Eulerich A and Eulerich M (2020): *What is the value of internal auditing? – A literature review on qualitative and quantitative perspectives* (published in *Maandblad Voor Accountancy en Bedrijfseconomie*, Amsterdam University Press)

Appendix D:

Research methodology

This project was initiated in autumn 2021, with a survey open for one month, and roundtable discussions, wider research and interviews held during winter 2021.

Online survey – technical summary

On 6 October 2021, 5,120 individuals were invited by email to take part in the 'Internal audit in public services' online survey.

These individuals worked in central government, education, local government or housing and were in a job role described as being either audit or finance related or were a political appointment, eg a councillor.

Each person was contacted a maximum of four times: the initial email followed by up to three reminders (issued on 13 October, 20 October and 27 October). Potential respondents only received a reminder if they had not started or fully completed the survey. The number of people contacted/responded per wave is as follows.

- Wave 1 (initial): 5,120 issued/193 completed (45%)
- Wave 2 (first reminder): 4,921 issued/112 completed (26%)
- Wave 3 (second reminder): 4,179 issued/83 completed (20%)
- Wave 4 (third reminder): 4,720 issued/37 completed (9%)
- **Total completed: 425**

Links to the survey were also distributed to members of the following organisations and groups: HAIF, TIAN, CHEIA, National Housing Federation, GIAA, BUFDG, CIPFA Internal Audit Special Interest Group, IASAB, CIIA and the CIPFA Governance Audit Risk and Assurance working group. This yielded a further 328 responses. We also received 78 responses that we judged to be sufficiently complete to include in our report. This brought the total number of responses to 831.

The survey consisted of 23 questions, and if the respondent was not in an audit role, four questions were omitted. From a statistical perspective, while we're unable to provide a total response rate, we can make certain judgements about the reliability of our results.

Responses	Confidence level	Error rate
400	95%	±5.0%
700	95%	±4.0%
1,000	95%	±3.0%

Consequently, the statistical validity for this survey can be viewed as being highly credible.

Responses	Confidence level	Error rate
5,131	95%	±3.4%

What does this mean, or what impact does this error rate of ±3.4% have on our results? The simplest way to describe this is by example. If the result for any given question is, say, 51% 'yes' and 49% 'no', then this difference (2%) is lower than our error rate and is consequently not significant. If the result is 55% 'yes' and 45% 'no', then the difference (10%) is greater than the error and can be consequently said to be significant.

The other method by which we can assess the integrity of the survey is by undertaking an evaluation of potential bias. In other words: to what extent do the profiles of respondents match those of our population of interest? However, this assessment of bias comes with a caveat: the only profile information we have access to is that of the 5,120 we originally canvassed. Consequently, we have to assume that the profile of this cohort is similar to that of the other member organisations that raised awareness of our survey.

The profiling information being used for assessing bias relates to the person's level of seniority and their job role – see tables below.

Level of seniority	Population	Respondents	Difference
Operational	53.2%	38.1%	-15.1%
Head	16.2%	23.7%	7.5%
Director	16.1%	18.5%	2.4%
Manager	13.3%	16.8%	3.5%
Other	1.2%	2.8%	1.7%
Total	100.0%	100.0%	

The 'difference' illustrates the extent to which the respondent profile differs from that of the population of interest, ie the 5,130 people canvassed. The results would appear to suggest that we had a smaller proportion of operational staff taking part than that of our population, and consequently larger proportions of managers and senior managers. It could be argued that having a larger proportion of managers/senior managers' views is a positive thing.

Job role	Population	Respondents	Difference
Audit	69.1%	67.5%	-1.5%
Finance	12.4%	14.6%	2.2%
Councillor	11.2%	7.6%	-3.5%
Other	7.4%	10.2%	2.8%
Total	100.0%	100.0%	

An identical comparison but based on the job role shows that any bias is far less obvious. Essentially, where the 'difference' is at or around 2%, then we would claim that any bias is within acceptable bounds. From this perspective, we can claim that our results are representative.

Roundtable meetings

Of the 831 survey respondents, 143 agreed to get involved. Respondents were organised into five groups, generally corresponding to their job roles, eg heads of internal audit; clients, audit committee chairs; clients, senior managers; auditors, excluding heads of; and selected heads of internal audit together with clients. Four of these roundtables took place in November 2021 and one took place in December 2021. To help stimulate debate and to ensure that specified topics were discussed, a guide was created based on the findings from the online survey.

However, the content did vary from group to group, but it generally covered:

- assurance frameworks/risk management
- resources and skills
- IT, including digitisation, real-time assurance and analytics
- being strategic
- changing perceptions/improving understanding of internal audit
- the future.

Each roundtable was hosted on Microsoft Teams and, with the necessary approvals in place, recorded. The recordings were uploaded to Otter AI for transcription, and a Word document was created for each roundtable. The original audio/visual document was also retained. The contents of the various Word documents were imported into NVivo's text analytics software, allowing us to identify the key themes arising and the comments that best illustrated them.

Sector of respondents	%
Local government body	76
Civil Service – central government department, including NDPB/agencies	9
Police/fire	6
Education/FE/HE	4
Other public sector/social enterprise/charity/not-for-profit/housing/social care	3
NHS/health body	2
Role of respondents	%
Qualified/experienced internal auditor, including trainee internal auditor	37
Head of internal audit or equivalent	29
Executive/senior manager	18
Audit committee member	13
Other	3
Internal audit resourcing model	%
In-house internal audit team	57
Outsourced to an external provider	23
In-house team with a co-sourced arrangement	18
Contractor/outsourced head of internal audit managing an in-house team	3



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Audit Committee

21st November 2022



Report of: Chief Internal Auditor

Title: Internal Audit Half Year Report 2022/23

Ward: Citywide

Officer Presenting Report: Simba Muzarurwi - Chief Internal Auditor

Recommendation

The Audit Committee considers the work of the Internal Audit Team (IA), during the period of 1st April to 31st October 2022, and the results thereof and agrees to the proposed amendments to the 2022/23 Internal Audit Plan.

Summary

This Activity Report provides the Committee with an accumulative summary view of the work undertaken by Internal Audit in the period of 1st April to 31st October 2022, together with the resulting conclusions, where appropriate. Additionally, the report provides the Committee with oversight of grant certification work completed, update on the implementation of agreed management actions during the period under review and individual summaries for the audit reviews that have concluded with a 'Limited' level of assurance.

The significant issues in the report are:

- Audit work brought forward from 2021/22 is now fully complete
- Work is progressing on the 2022/23 plan with 37% of the planned work complete or at draft report stage. This is against a target of 45% at the end of quarter 2. Actions have been taken so that the planned target for year end (90%) can be met.
- Progress continues to be good in implementing agreed management actions arising from internal audit reports.
- The use of the internal audit strategic partner to mitigate the risks associated with staff absences.
- Two Level 7 Internal Audit Professional Apprentices have been successfully appointed to the team
- A significant amount of work completed to certify 28 grants with a total value of £35.m.
- Request for the Audit Committee to approve the proposals to amend the 2022/23 Audit Plan following a detailed review and discussions with the Corporate Leadership Team.



Policy

1. Audit Committee Terms of Reference

Consultation

2. **Internal**

Corporate Leadership Board including S151 Officer, Cabinet Member for Governance, Resources and Finance.

3. **External**

Not applicable

Context

4. The half year report is designed to provide the Committee with a summary view of the work completed by the Service throughout the year to date and the results of that work. The report therefore:
 - Provides an overview of the work of Internal Audit to date.
 - Presents the assurance work completed by the Internal Audit team during the period, together with the conclusions drawn from that work.
 - Updates the Committee on the Internal Audit recommendations implementation rate.
 - Spotlights audit review outcomes, both positive and negative, to management and the Audit Committee for their consideration and action, where appropriate.

The half year report covering the period 1st April 2022 to 31st October 2022 can be found at Annexure A.

Proposal

5. The Audit Committee note the half year report and approves the proposals to amend the 2022/23 Internal Audit Plan.

Other Options Considered

6. Not applicable

Risk Assessment

7. The work of Internal Audit minimises the risk of failures in the Council's internal control, risk management and governance arrangements, reduces fraud and other losses and increases the potential for prevention and detection of such issues. Areas of significant risk are detailed in the

report.

Summary of Equalities Impact of the Proposed Decision

No Equality Impact anticipated from this report.

Legal and Resource Implications

Legal

Not Applicable

Financial

Not Applicable

Land

Not Applicable

Personnel

Not Applicable

Appendices:

Annexure A – Internal Audit Half Year Report

Appendix 1 – Summary of Planned Audit Work Completed

Appendix 2 – Cloud Review – Internal Audit Summary Report

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

Public Sector Internal Audit Standards

Various Audit Files



BRISTOL INTERNAL AUDIT

Internal Audit Half Year Report

April 2022 to October 2022



1. Introduction

- 1.1 The role of the Internal Audit function is to provide Members and Management with independent assurance that the control, risk and governance framework in place within the Council is effective and supports the Council in the achievement of its objectives. The 2022/23 Internal Audit Plan was approved by the Audit Committee in March 2022 and provides a programme of work designed to enable provision of an evidence-based audit opinion on the risk management, governance and control environment to the Corporate Leadership Board and Audit Committee and in support of the Annual Governance Statement (AGS). As previously agreed with the Audit Committee risks to the Council continue to evolve at pace so Internal Audit maintain a rolling plan which is formally reviewed quarterly.
- 1.2 Upon completion of an audit, an assurance opinion is given on the effectiveness of the controls in place. The results of the entire programme of work are used to inform the Chief Internal Auditor's opinion in the Annual Internal Audit Report on the effectiveness of internal control, risk and governance arrangements within the Council.
- 1.3 This Half Year Report provides members of the Audit Committee and management with an update on the progress in delivering the 2022/23 Audit Plan. The update covers the period of 1st April 2022 to 31st October 2022, building on the information which was provided to the Committee at its meetings in July and September 2022 enabling the Committee to track the progress on planned internal audit activities throughout the year.
- 1.4 The report also provides an update on any proposed changes to the Audit Plan as well as updates in the following areas:
 - Outcomes from internal audit activities including summaries of completed audit reviews where the level of assurance was concluded as 'Limited' since the last meeting;
 - Internal Audit resourcing as required by the Public Sector Internal Audit Standards (PSIAS);
 - Grant certification;
 - Implementation of agreed audit recommendations and agreed management actions.
- 1.5 The summary of internal audit activities completed or in progress during the review period is provided at Appendix 1 to this report.
- 1.6 The Internal Audit function also provides a Counter Fraud Service to the Council to enhance arrangements for the prevention, detection and investigation of fraud. The activities of the Counter Fraud Service are the subject of a separate half year report also being considered at this meeting.

2. Key Messages

- Audit work brought forward from 2021/22 has been a key focus in the earlier parts of the year but is now fully complete.
- Work is in progress regarding the audit plan for 2022/23 with 37% of the planned work complete or at draft report stage against a target of 45% at the end of Quarter 2. However, it is anticipated that the planned target for year-end can be met.
- Grant certifications have been another key area of work for the team in the first half of the year. The number of certifications required is increasing and this work will continue into the second half of the year.
- The Internal Audit Plan has been reviewed and amendments proposed to ensure the most effective use of audit resource. The Committee is asked to approve these amendments.
- Progress continues to be good regarding implementation of improvement actions agreed following audit work.
- The team has suffered a level of sickness that has meant delivery of the audit plan has not progressed as quickly as hoped particularly in the first quarter of the year. However, the use of strategic partnering has helped mitigate this.
- The team welcomes two newly appointed Level 7 Internal Audit Professional Apprentices. This means the team is now supporting development of 3 audit professionals to help ensure resilience and capacity of the team moving forward.

3. Audit Plan - Completion, Amendment and Key Messages

Annual Risk Based Assurance Plan Status:

- 3.1 The audit work brought forward from 2021/22 is now fully complete. Delays in completing these reviews were due to some audits taking longer than originally anticipated, staff sickness levels in the Internal Audit Team, increasing grant certifications and competing priorities for managers across the Council and their ability to prioritise engagement with audit. The delay has also slightly impacted on the current delivery position of the 2022/23 Audit Plan.
- 3.2 The work on the 2022/23 Audit Plan is now progressing although is behind schedule. The planned audit activities to completion and draft report stage are at 37%, against a target of 45% at the end of Quarter 2. Resourcing challenges have now been addressed by the recent recruitment of two Level 7 Apprentices and agreement of more support with the audit strategic partner. In addition, the team is increasing its use of analytics in the audit process to increase assurances without additional resource.
- 3.3 As managers try to deal with challenges facing the organisation, the speed at which internal audits are completed has slowed down and it is taking longer to finalise reports. This is being addressed by increased and regular engagement with senior management ensuring that delays are escalated timely.
- 3.4 Having reviewed the approved plan against the available resources we are confident that the agreed target will be met by end of the financial year.

- 3.5 The summary of the planned work either completed or in progress for the period 1st April to the 31st October 2022 is provided at Appendix 1 together with the level of assurance concluded from each review.

Key Messages to Date from Audit and Assurance Work:

- 3.6 As reflected in Appendix 1, 83% of the 48 audits completed and grants certified in the period under review had a **reasonable** or better assurance opinion. Three audits excluding schools had a **limited assurance** opinion and 1 grant was not able to be certified at the time. Details are below:

ICT and Cyber Security

- 3.7 Consistent with the Audit Committee reporting protocol, a summary report of an audit that concluded 'Limited Assurance' is provided at Appendix 2. The summary relates to the Cloud Review. As this report contains information relating to the financial or business affairs of any particular person (including the authority holding that information), it will be considered in an exempt session under Category 3 in the Access to Information Procedure Rules.
- 3.8 In addition, follow up of actions agreed on conclusion of previous reviews in relation to IT Resilience and Cyber security have been completed. Although progress has been made to implement many of the agreed actions in these areas, most are not yet fully implemented meaning the risks identified remain.
- 3.9 Rather than continue to complete new audits in respect of the Council's IT arrangements, it is felt more useful at this time to undertake a root cause analysis in this area. This work will support management in understanding the fundamental cause of weaknesses in current arrangements for sustainable improvement. In addition, this exercise and the IT risk assessment will inform future audit activities in the area.
- 3.10 In September 2022, members of the Committee received a detailed briefing from officers in relation to IT and Cyber risks and how those are being mitigated. The Director: Policy, Strategy and Digital will bring a further report to the Committee in January 2023 which details the planned future approach to IT management, governance and delivery.

Schools Audit Programme 2021/22:

- 3.11 Internal Audit undertook reviews of financial management and governance at 10 schools focussing on budget setting and monitoring. For six schools, Internal Audit concluded reasonable assurance and for four schools limited assurance.
- 3.12 The audit referenced the revised financial regulations for schools implemented by the Council from 1 April 2022. Internal Audit found varying awareness of these with some schools being slow to respond to changes in requirements. Due to the pandemic a number of schools had issues with governors meeting as frequently as required. Governor finance training had also lapsed as courses had not been available. Overall financial health was declining and schools were facing rising costs particularly for staffing and energy. Some schools had already addressed this in part through investment in premises and staff reductions. Other schools faced similar difficult decisions to avoid or reduce deficits. In the longer-term smaller schools were looking to collaborate more with neighbouring or similar schools to share costs.

- 3.13 Payroll and recruitment procedures and income collection and banking procedures were generally well managed. School arrangements for the audit of 'unofficial school funds' had lapsed during the pandemic but most schools were now addressing this.
- 3.14 Scoping of assurance work across schools in relation to 2022/23 has already begun and work will begin during quarter 3 to deliver this. A risk assessment using information about each school including date and opinion of last audit, OFTED reviews and financial position has been used to select a sample of schools for review in 2022/23. Areas of focus for these reviews is currently being developed with a view to commence work shortly.

Audit Plan Review

- 3.15 By necessity, the Audit Plan must be flexible to ensure it remains relevant to risks facing the Council throughout the year which is consistent with the rolling plan methodology adopted. Consequently, the Audit Plan has been further reviewed to take into account further changes in the Council's risk environment and discussions with management. Details of the proposed changes together with the reasons for the proposals are provided in Table 1 below.

Table 1 – Proposed Amendments to the 2022/23 Audit Plan

No.	Proposed Plan Amendment	Audit Assignment	Rationale
1	Removal	Children's Safeguarding	Reasonable assurance opinion from 2021/22 completed in year
2	Removal	SEND	Ofsted review in year.
3	Removal	IT Infrastructure	IT Root Cause Analysis followed by a new IT risk assessment
4	Removal	Legacy Systems	Risk acknowledged and IT Root Cause Analysis followed by a new IT risk assessment
5	Change	ISMS (information Security Management System)	Implementation still ongoing and embedded assurance will continue regarding policy development.
6	Addition	Q4 Capital Spend	Agreed as part of management response to External Audit findings.
7	Addition	IT Root Cause Analysis.	Given the number of limited assurance audits in relation to IT Audit work completed, root cause analysis needed to support current improvement agenda.
8	Addition	Homelessness	Assurance requested regarding the extent to which criteria are followed in assessment of need for temporary accommodation.

- 3.16 The Committee is requested to agree to the proposals.

4. Grant and Other Certifications

- 4.1 To date, the team has audited and certified 28 grant claims to the value of approximately £38.5m - see Appendix A. This represents a year-on-year increase in this area of activity as more grants are required to be certified by the team. Further grants require certification into

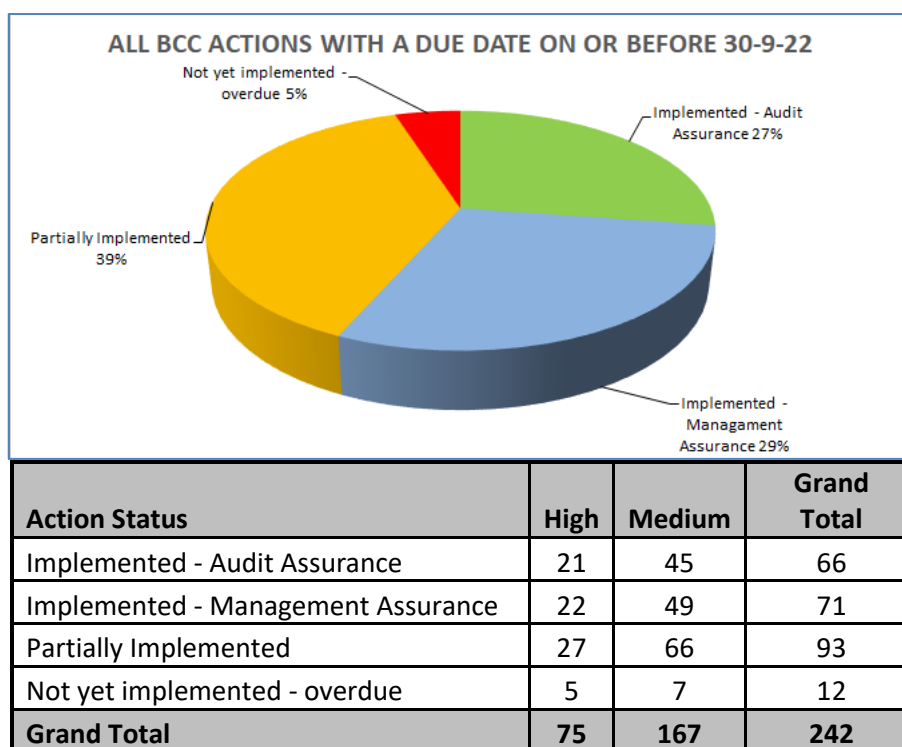
quarter 3. Concerns have been raised with CLB regarding the late notification of certification requirements. Senior management are currently reviewing how this will be addressed to enable the audit team to plan for delivery of timely certifications as required.

- 4.2 There were no significant grant compliance issues identified although in one case we have had to defer grant certification for a small grant until such times as agreed outputs were delivered.

5. Implementation of Agreed Management Actions

- 5.1 Whilst the ultimate responsibility for the implementation of agreed management actions lies with management, it is incumbent on Internal Audit to facilitate the improvements by ensuring maximum engagement with the client during the audit process and supporting the resolution of matters arising where appropriate.
- 5.2 It is pleasing to note the good progress in implementing agreed management actions. The chart at table 2 demonstrates 95% of actions with a due date on or before 30th September 2022 have either been implemented or partially implemented. This is against a target of 93%.
- 5.3 For high and medium priority actions, internal audit independently verifies implementation of actions once management has advised they are implemented. These are marked in green in Table 2 below. The remaining segments are management updates on the position and still require audit verification.

Table 2



6. Priorities Going Foward

- 5.1 Delivery of the audit plan remains the main priority for the team in the second half of the year. Continued application of our engagement model will be vital to ensure management support to

do so as the organisation tackles the significant challenges and inevitable changes the response to these will bring. Regular and targeted engagement with management and a flexible and responsive approach is planned to ensure audit matters are given the priority required.

- 5.2 The team are preparing for an External Assessment required by the Public Sector Internal Audit Standards. It is anticipated the self-assessment of compliance with the standards will be finalised and submitted to the reviewers (Nottingham City Council) in December 2022. The review itself will take place in January and February 2023 in line with terms of reference previously agreed by the Audit Committee. The resulting report is due to be presented to the Committee in March 2023.
- 5.3 The Committee will recall that the team have taken responsibility for whistle-blowing arrangements on behalf of the Council. In doing so, the team are unable to form an independent opinion on the effectiveness of arrangements in this important area of governance. Work has commenced to commission an independent audit in this area in quarter four, the result of which will be provided to the Audit Committee.
- 5.4 Work on use of data analytics and continuous audit has been started in line with our audit strategy and priority is being given to use of data to drive audit assurances. In addition, development of continuous audit techniques is a key area for development.
- 5.5 Working with a strategic partner has brought many benefits to the team in terms of capacity and skills. Further benefit from these arrangements can be achieved relating to skills transfer in development of the inhouse team. Arrangements are currently being developed with the strategic partner to maximise benefit in this respect.

6. Context and Compliance

- 6.1 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, internal control and governance processes.
- 6.2 In undertaking audit engagements the team complies with the Public Sector Internal Audit Standards and CIPFA's Local Government Application Note.

Appendix 1

Internal Audit Work - Period 1st April 2022 -30th September 2022			
Directorate	Name of Review	Status	Audit Assurance Rating
Corporate	Annual Governance Statement 2021/22	Complete	N/A
Resources	IT Governance *	Complete	Limited Assurance
Resources	IT Transformation Programme Follow Up *	Complete	Limited Assurance
Resources	Cyber Security Follow Up	Complete	N/A
Resources	Cloud Resilience	Complete	Limited Assurance
Resources	IT Resilience Follow Up	Complete	N/A
Corporate	Health and Safety Follow Up re Manager Health and Safety Self Assessment (CHaSMs)*	Complete	N/A
G&R	Housing Revenue Account Management *	Complete	Reasonable Assurance
People	Follow-up Adult Safeguarding Processes *	Complete	Reasonable Assurance
People	Children's Safeguarding - Performance Monitoring and Social Worker Recruitment*	Complete	Reasonable Assurance
People	Schools Assurance Programme 2021/22* (10 Schools)	Complete	6 x Reasonable Assurance 4x Limited Assurance
Corporate	Scheme of Delegation	Draft	
G&R	Homelessness (Requested)	Draft	
G&R	Housing Rent	Draft	
People	Adult Social Care Budget Management Structures and Processes	Drafting	
People	Placement sufficiency for Children in Care	Drafting	
Resources	Core Systems Access Controls	Drafting	
G&R	Flood Risk Management	Field Work	
Corporate	Capital Spend - Requested	Field Work	
Resources	Financial Management Code Self Assessment Verification	On Hold	
Corporate	Supply Chain and Third Party Risk	Scoping	
Resources	Debt Management	Scoping	
Resources	NDR Collection	Scoping	
People	Integrated Care Management System	Scoping	
People	Schools Assurance Programme 2022/23	Scoping	
Corporate	Contract Management	Scoping	
People	Adult Social Care Transformation - Embedded Assurance	On-going	
G&R	Housing IT Transformation Programme - Embedded Assurance	On-going	
Resources	Group Company Governance - Embedded Assurance	On going	
Resources	Digital Transformation Programme - Embedded Assurance	On going	
Resources	Information Governance Board - Embedded Assurance	On -going	
Resources	Covid Grants Assurance	Ongoing	
Resources	Continuous Audit and Continuous Monitoring	Ongoing	

* (c/f from 2021/22)

Grants and Other Certifications			
Directorate	Name of Review	Status	Value £
People	Protect & Vaccinate Grant	Complete	480,985
G&R	Hawkfield Business Park - The Bottle Yard Studios	Complete	2,706,350
G&R	Bristol City Centre and High Streets Recovery and Renewal Grant	Complete	219,627
G&R	Feasibility Study: Bristol City Council – Bedminster High Street Improvement	Complete	167,828
G&R	High Street Renewal Catalyst Fund	Complete	96,365
People	We Work For Everyone	Complete	896,280
G&R	City Centre DDP and Frome Gateway 2022/23	Complete	235,000
G&R	Western Harbour Place Shaping Vision FEAS DC 2022/23	Complete	155,000
G&R	South Bristol Enterprise Support	Complete	532,253
People	Youth Justice Grant	Complete	661,417
G&R	Scambuster and NTS Funding for Regional Intelligence Functions Grants	Complete	382,260
G&R	NTS Sub-Grant for NTS Funding for Regional Intelligence Functions SWERCOTS 2021/22	Complete	89,221
People	Future Bright Programme Grant	Complete	503,878
G&R	Lead Enforcement Authority Grant 2021/22	Complete	194,830
People	Contain Outbreak Management Fund grant	Complete	18,160,267
People	Local Authority Practical Support Payment Scheme Funding Grant	Complete	763,500
G&R	A4018 Corridor Improvements Grant	Complete	83,268
Resources	TTSP Grant	Complete	4,273,792
People	Adult Weight Management Services Grant	Complete	189,982
People	WECA Data Resourcing Project 2022/23	Complete	30,000
G&R	Pothole Action Fund Grant 2022/22	Complete	1,889,953
G&R	Digging for Delft grant	Complete	42,451
People	CEC Employer Engagement Enterprise Project Grant	Complete	48,570
G&R	WECA Highways Capital Maintenance	Complete	2,626,475.00
G&R	WECA Highways Incentive	Complete	656,712.00
G&R	Integrated Transport	Complete	1,940,419.00
G&R	OLEV Round 2 ULEV Taxi Infrastructure	Complete	336,276.00
People	Reboot West	Complete	106,176.00
Total			38,469,135

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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