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# BRISTOL INTERNAL AUDIT

Information Classification: Level 1 Due care

## INTERNAL AUDIT: DRAFT PLAN 2017/18

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# 1. Purpose of this Annual Plan Report

- 1.1 This report provides an overview of Internal Audit's proposed work plan for 2017/18. Its purpose is to:
- ❖ Provide the Audit Committee with the draft planned Audit coverage for 2017/18
  - ❖ Provide details of the methodology used to formulate the plan
  - ❖ Draw attention to key areas within the proposed plan
  - ❖ Provide details on the plan monitoring process, together with the follow-up and escalation process.

# 2. Formulation of the 2017/18 Audit Plan

- 2.1 The Internal Audit planning process reflects the requirements of the Public Sector Internal Audit Standards 2013 (PIAS) and supporting Local Government Application Note produced by CIPFA/CIIA. It results in a risk based audit plan which should:
- ❖ Ensure we complete a programme of work which will enable us to provide an evidence based opinion on the whole risk, governance and control environment to the Chief Executive and Audit Committee in support of the Annual Governance Statement (AGS)
  - ❖ Help the Council meet high standards of service delivery, conduct and governance by examining, evaluating and reporting on the risk management, governance and internal control environment
  - ❖ Ensure we are in a position to deliver other elements of work that we do on behalf of the Council which also support our year-end opinion.
- 2.2 The level of Internal Audit resources required to examine all Council activities far exceeds those available each year. It is therefore important to ensure our work is planned to ensure the maximum benefit is achieved in respect of the above aims and that our work is risk based. In preparing our plan we look to provide reasonable assurance regarding all key areas within the Council risk, governance and control environment as demonstrated by figure 1 below:



**Figure 1**

- 2.3 In developing the plan, we have undertaken a desk top review of the potential risk areas for audit. In doing so we have considered:
- ❖ The risks recorded in the Corporate and Directorate Risk Registers to ensure we can provide independent assurance regarding the management of those risks
  - ❖ The Council's and national fraud risk registers that are specific to local authority operations
  - ❖ The areas identified by the Council's Annual Governance Review process as potential governance issues
  - ❖ The results of our work last year to determine where further work or follow up reviews are required.
- 2.4 Additionally, we have consulted with officers and Members to ensure we have correctly assessed and understood the risks to achievement of the Council's objectives and to ensure we understand how our work fits with other sources of assurance. We have consulted the following staff/Members:
- The Extended Leadership Team (ELT)
  - Directorate Leadership Teams (DLT's)
  - S151 Officer
  - Information Security Staff Leads ( in progress)
  - Finance Managers and Finance Business Partners
  - External Audit (in progress)
  - Cabinet Member (Resources)
- 2.5 Internal Audit also has responsibility on behalf of the Council for facilitation of developments in the following areas and this work is also included in the work plan:
- ❖ Strategic risk management facilitation and best practice development
  - ❖ Co-ordination of assurances around corporate governance and compilation of the Annual Governance Statement
  - ❖ Ensuring robust counter fraud arrangements are in place across the Council.
- 2.6 The outcome of the above process is the draft plan at Appendix 1. The plan sets out a work programme that will enable us to form an opinion on the whole of the Council's risk management, internal control and governance arrangements based on sampling risk management strategies and control/governance systems.

### 3. Resources

- 3.1 The Team has some vacancies going in to 2017/18 at all levels within the structure. This has resulted from the resignation of two Audit Managers (1.8 FTE) from the team and our apprentice securing alternative employment within the Council. The Audit Manager (Assurance) role was filled from within the team, leaving a vacancy at Senior Auditor level. Additionally we have held an auditor post vacant pending

spending freezes and restructure considerations. We are intending to fill all vacancies on a fixed term basis pending further restructure work within finance and will explore other ways of resourcing the team if this is not successful.

3.2 The table below provides the Committee with a summary view of the proposed coverage for 2017/18, split by audit type and providing indicative days to be spent in each area. Fuller details of the Audit reviews planned in each area provided in Appendix 1.

<b>Area of Work</b>	<b>Indicative Days</b>
• Governance Systems	260
• Risk Management Effectiveness	290
• Financial Control Systems	365
○ Certifications	195
○ Schools Financial Governance	50
○ Value for Money Exercises	45
• Commissioning and Procurement	145
• Asset Management	150
• Information Security*	115
• Specific Projects and Programmes	35
• <b>Follow up provision</b>	50
• <b>Total Risk, Governance, Assurance</b>	<b>1,700</b>
• Counter Fraud	
○ Strategic Fraud Work	35
○ Fraud Prevention	65
○ Fraud Detection (incl DWP req)	300
○ Responsive Fraud Investigation (including tenancy fraud case work)	950
• <b>Total Fraud</b>	<b>1350</b>
<b>Total Planned Coverage</b>	<b>3050</b>
<b>Total Available Productive Days</b>	<b>2911</b>

\* We are currently seeking advice of IT Audit experts from outside of the team to ensure this element of the plan accurately reflects the assurances required. Once this is received, the plan will be amended as necessary. (see para 3.5 below)

3.3 Estimating the resource required for each audit assignment included in the plan is difficult at the planning stage. A number of factors that occur either before or during the audit reviews can significantly alter (in either direction) the number of days required for individual reviews. The above table demonstrates that the planned coverage and available resources are aligned enough to give us reasonable confidence at this

stage that the team is resourced (assuming vacancies are filled as planned) to deliver a work programme designed to enable our overall opinion on the Council's governance, risk management and internal control arrangements to be evidence based and provided in our Annual Report.

- 3.4 The audit plan needs to be flexible to ensure it can change as the Council's risk environment changes. Should new areas for potential review be identified, these will be risk assessed against those assignments included in this plan and items will be added/ removed from the plan by the Head of Internal Audit. In completing this assessment, we will take into consideration the priority of each remaining item in the plan against the priority for the new item being considered in consultation with the s151 Officer. Any amendments to the plan will be recorded and reported to Audit Committee during the year.
- 3.5 In order to deliver the work programme we have drafted, the Team needs to have the correct skills. Currently, the Assurance Team benefits from a number of long serving and experienced senior audit staff who have relevant qualifications (accountancy and/or internal auditing qualifications) together with some training staff who are developing their auditor competences and professional training. However, in recent years, the team has seen all of its technically qualified IT Auditors leave the Council's employ and whilst a member of the team has been working to develop these skills over the last year, we will, for this year, look to support that by sourcing an external qualified IT auditor to work with the team for a number of days to deliver the technical elements of the IT security audits whilst ensuring the skills are transferred to the team. Options are currently being evaluated for provision of this arrangement.
- 3.6 The Counter Fraud Team consists of a number of professionally qualified investigation staff to ensure an appropriate response is provided. Two investigations trained staff from the Council's former Benefit Fraud Investigation Team remained with Internal Audit's Investigations team to secure robust coverage in two key fraud risk areas:
- following the transfer of responsibility for investigation of benefit fraud to the DWP from April 2015, obligations remain with the Council to provide the DWP with information regarding benefit claims to enable them to investigate
  - obligations to ensure that fraud against the Council's Council Tax Reduction Scheme is properly dealt with remains a Council responsibility. Previously Council Tax Benefit was dealt with as part of the same investigation as housing benefit
- 3.7 A Housing Advisor has been seconded to the investigations team to work with two of our other qualified investigators on the key fraud risk area of tenancy fraud. This resource is also included in the above analysis.
- 3.8 Whilst Value for Money (VfM) work represents a small percentage of the overall Audit plan, VfM is integral to all of our work and is considered at each audit assignment as a matter of course. This small allocation relates to specific and targeted VfM work we aim to complete which is not specifically covered elsewhere in the plan. Additionally our proactive fraud and irregularity work often identifies significant VfM opportunities.
- 3.9 A flexible contingency allowance has been incorporated into the plan to allow for fraud responsive work, however should responsive work not materialise, this resource will be used to complete pro-active fraud work, further VfM exercises or other assurance work as required.

## 4. The Audit Plan – Key Features

- 4.1 The plan reflects the highest risk areas to the Council and is designed to ensure that our assurance is targeted effectively to enable us to provide an opinion on the whole governance, risk and control framework. Significantly, this year, our resource is currently heavily focussed in the following areas:
- ❖ **Corporate Governance** – The Bundred Report has highlighted significant corporate governance issues at the City Council. The Internal Audit plan is therefore heavily weighted to reviewing particular governance aspects identified in that report together with areas where our own knowledge indicates that audit resource needs to be allocated. Additionally we have allowed time to develop a governance ‘dashboard’ that we will monitor quarterly with DLT’s to ensure that in year assurances are in place to monitor improvements and highlight emerging issues. This will include assurances required to inform the annual governance statement at the end of the year.
  - ❖ **Risk Management** – The Bundred report also highlighted issues concerning the Council’s risk management processes, identifying that Corporate and other risk registers did not contain accurate, robust and informative risk information. The Audit plan includes a number of days to strengthen and embed the risk management process and also look carefully at controls and mitigations in place for a sample of the highest risks included in the Corporate and Directorate risk registers.
  - ❖ **Financial Governance** - The plan retains a significant focus on financial control as we remain concerned to ensure that fundamental system controls are improved. As budget pressures continue across the Council, strong financial control is paramount to ensure the Council’s financial resilience is secured.
  - ❖ **Commissioning and Procurement** – This area continues to be considered high risk and vulnerable to fraud. It represents a significant element of the Council’s operations and spends and as such poor controls and non-compliance with best practice is likely to result in poor value for money for the Council. The need for a robust procurement framework is critical and our reviews in this area support that goal. Strong governance when working in partnership with others is essential to ensure all parties understand commitments and expectations.
  - ❖ **Project Consultancy** - the Plan incorporates an allocation of time to allow Internal Audit to be involved appropriately throughout key projects/programmes.
  - ❖ **Counter Fraud** – A significant proportion of the plan is devoted to ensuring the Council has robust approaches to the most significant fraud risks it faces. The plan includes focus on specific fraud prevention work as well as maintaining a focus on proactive fraud detection, investigation and awareness. Tenancy fraud continues to be a key focus for the team. All counter fraud work continues to demonstrate value for money to the Council.

- ❖ **Follow up** – the timely implementation of audit recommendations remains critical for the Council. Where high levels of risk are identified by our work, our follow up programme will continue to highlight and escalate to senior management and the Audit Committee those areas where timely improvements are not made.
  
- 4.2 Certain aspects of the Council's work are likely to be delivered via the new West of England Combined Authority. We will maintain a watching brief on governance arrangements for the WECA and are in liaison with the Head of Internal Audit at both South Gloucestershire and Bath and North East Somerset Councils to ensure our audit approaches for these areas are joined up where appropriate, comprehensive and do not duplicate.
  
- 4.3 The practices of the team will also be closely reviewed in the early part of the year following specific criticisms in the Bundred report. The team are concerned to ensure that both management and the Audit Committee can have confidence in the outcomes of our work going forward and intend to develop a full quality assurance and improvement programme for review and monitoring by the Committee. Additionally, we have arranged for an independent review of the teams compliance with our professional standards to be carried out by Sheffield Audit Team as part of a peer review arrangement with the Core City Group. Early objectives for improvement being considered include:
  - Ensuring that organisational arrangements are such that the team is empowered to drive home our professional views resulting from audit work regarding control, risk and governance at relevant levels in the organisation. We will be reviewing arrangements to further strengthen our independence and ensuring the team has the capacity and professional recognition required to deliver respected relevant and timely opinions.
  - Enhancing tracking of recommendations we make, and agreeing and enforcing our escalation policy where non compliance is identified.
  - Developing continual audit techniques to provide early organisational insight for quarterly 'governance dashboard' monitoring with DLT's to embed governance requirements and Annual Governance Assurances into day to day management of the organisation. This should help raise the profile of both the team and control/governance processes.

## 5. Plan Monitoring

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



## 6. Follow Up and Escalation

- 6.1 Follow-up audits are included in the plan with any arising in-year follow-up to be an integral part of the audit coverage.
- 6.2 Details of Audit follow up work will be reported to the Committee as part of in year updates and annual report. Directorates/Services that fail to implement High/Medium recommendations within the agreed timescale will be brought to the attention of the Committee.
- 6.3 The Escalation Procedure includes escalating issues of concern through the management structure and ultimately to the Audit Committee. Members are expected to require relevant Strategic Directors or Service Directors/Managers to explain any failure to satisfactorily implement improvement recommendations or to confirm their acceptance of the risks associated with non- implementation of recommendations.

## 7. Context

- 7.1 The Audit Committee's Terms of Reference includes a strategic requirement to ensure that the Council's internal control and assurance framework is operating effectively. To enable them to do so, the Committee needs to ensure it seeks assurance that key areas that contribute to this framework are robust. The work of Internal Audit is a key component of the assurance provided to the Committee in fulfilling this role and the Audit Committee need to ensure the plan is focussed on the key assurances they require.
- 7.2 The Public Sector Internal Audit Standards 2013 guidance on the role of Audit Committees in relation to Internal Audit suggests that it should involve reviewing, assessing and approving the Internal Audit work plan for delivery of the Audit Service.
- 7.3 The standards also include the requirement that Internal Audit must be operationally independent. The Internal Audit Charter and Terms of Reference detail the arrangements in place regarding the team's operational independence including details of the reporting lines for the Head of Internal Audit. There are two areas of work that the team does deal with operationally on behalf of the Council; facilitating the Corporate Risk Management Arrangements and facilitating the preparation and review of the Annual Governance Statement. There are synergies between these areas of work and that of risk based internal audit reviews of control and governance and they are well aligned to the assurances that Internal Audit seek to provide. However, the External Auditor reviews the Annual Governance Statement to ensure it has been prepared to properly reflect the governance activities that have operated at the Council in respect of 2016/17.

**Assurance Area**

Corporate or Cross Directorate Reviews	Resources Directorate Specific	People Directorate Specific	Place Directorate Specific	Neighbourhoods Directorate Specific
<b>Governance</b>				
Annual Governance Statement and Review - Quarterly Governance Dashboard plus annual review				
Code of Governance Review			Capital Programme Board Effectiveness. (follow up)	
West of England Combined Authority /Devolution Governance Understanding - watching brief				
Corporate Strategy Delivery - Planning and Performance Indicators				
Trading Company - Client expectation monitoring and code compliance				
Transformation Programme Governance and Audit continual involvement and Governance review				
Transparency and quality of decision making reports				
Business Cases - Robustness and Delivery				
Ethics and Culture				
Partnership Governance				
Schemes of Delegation				
Whistleblowing Policy				
Members Declarations of Interest				
Web Page Control - ensuring governance policies etc routinely available				
Complaint Systems				
<b>Risk Management</b>				
Policy, Co-ordination, Facilitation	Risk Based Reviews - Business Continuity - non system issues	Risk Based Reviews - Savings delivery	Risk Based Reviews - Major Project Delivery Overview (PPP Board)	Risk Based Reviews - response repairs
Embedding Risk Management	Risk Based Reviews - Finance Team transformation and governance	Risk Based Reviews - Adult Care - Provider Failure		Risk Based Reviews - homelessness - holistic approach to risk of increasing demand whilst subsidy reducing
Corporate Risk Register - Alignment to Corporate Strategy		Risk Based Review - Fitness for purpose of 3 Tier Model		Risk Based Reviews - preparedness for HB subsidy reduction
Risk register scrutiny arrangements and effectiveness				
Risk Based Reviews - Business continuity				
<b>Internal Control</b>				
<b>Financial Controls</b>				
IR 35 Compliance (off payroll costs - incl monitoring by payment approval process)	Chaps System - control and accounting	Adult Care - Bad Debt	Parking Income	Housing Rents (follow up)
Monitoring and reporting of budget position and transformation programme savings delivery	Bank Reconciliation	Billing of care services to those in home - deep dive (bf)	Security Services (Cash In Transit)	Housing Benefit Overpayment

Certifications (Grants and other) as required	Payroll System Controls	Directorate Budgetary control - follow up and use of Management information in forecasting.	Directorate Budgetary Control	Directorate Budgetary Control bf/follow up
Grant Awarding Processes (including EU grants)	Accounts Payable Controls	School Financial Governance		
Bristol Futures	Accounts Receivable	Adult Safeguarding - follow up and procedural review		NNDR Collection b/f
	Directorate Budgetary Control			Local Taxation Collection
	Balance Sheet Reconciliations			

**Commissioning and Procurement**

	Monitoring of Contracts	Monitoring of Contracts	Monitoring of Contracts	Monitoring of Contracts
Continual Audit - Contract management- renewals and awards	Cash Receipting System Contract Management	Commissioning - Adult Care Provision - Commissioning and Monitoring of service delivery		
Continual Audit - Contract Waivers				
Voluntary Sector Commissioning (avoidance of procurement regulations)				
Contracts Register and publication requirements				
Continual Audit - Credit and Procurement Cards b/f				

**Information Security/ICT (subject to specialist IT Auditor Planning Assistance)**

E Procurement System Controls	ICT Contract Management			
Data Protection Compliance (new regulations)	Cloud based storage systems - resilience, business continuity and security			
Data protection breaches - system for reporting	Finance System - resilience, security and business continuity			
PSN Compliance Annual review	IT Strategy and capacity to deliver			

**HR and Asset Management**

My Performance - Compliance and effectiveness	Employment Status and right to work		Market Operations	Housing Stock - Planned Maintenance
Staff training and development	IT Asset Management		Investment Property Portfolio	Housing Stock - Void Management
			Fleet Investment Contract Award	

**Projects and Programmes**

Savings trackers for Transformation Programme	HR/Payroll - New System Implementation			Housing Management System Implementation

**VFM/Targeted Savings Identification**

Telephones - (Ceased numbers)	Legal Services - Income generation - VFM			Right to Buy - (Properties sold on - recovery of discount)
Card payment - Charge Backs				Public Health Burials

**Counter-Fraud**

**Strategic Fraud Risk Management**

Fraud Recording and Reporting				
Annual Fraud Survey				

Open Data Reporting re Fraud (Transparency Code)								
Fraud Risk Register Review								
Fraud Policy Review								
<b>Fraud Prevention Work</b>								
Procurement - Bribery and Corruption Review		Fiscal Fraud Module Review		Direct Payment Fraud - Fraud Awareness Training for Social Workers				Housing Waiting List - Change of Circumstance testing.
Money Laundering - testing and controls review re refunds				Schools - Fraud Awareness Training				Fraud Awareness Training - Caretakers
Fraud Web page review and fraud warning bulletins								
<b>Proactive Fraud Detection Exercises</b>								
National Fraud Initiative				Schools Admissions		Parking Income		Housing Benefit Fraud - DWP Liaison
Procurement - Data Analytics Development				Schools - Tied Properties		Residents Parking Zone		
				Direct Payments				Council Tax Reduction
								Adaptions - tenancy check
<b>Fraud Investigation</b>								
General Contingency for dealing with fraud referrals								Tenancy Fraud
Fraud Hotline								Residual Benefit Fraud Prosecution Cases
GAIN/Police Enquiries								