



# BRISTOL INTERNAL AUDIT

## INTERNAL AUDIT CHARTER, TERMS OF REFERENCE AND STRATEGIC STATEMENT

### 1. **Introduction:**

- 1.1 The Head of Paid Service and the s151 Officer are responsible for maintaining an effective and appropriately resourced internal audit function, in line with the Accounts and Audit Regulations (2015). 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, Terms of Reference and Strategic Statement 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). It also meets the PSIAS requirement for Internal Audit’s risk-based plan to incorporate or link to a strategic or high-level statement.

### 2. **Definition of Internal Audit and the Objectives of the Service:**

- 2.1 The definition of Internal Audit is a mandatory part of PSIAS and is as follows:  
  
*“Internal Audit is an independent, objective assurance and consulting function that is designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating, reporting on and recommending improvements where necessary to secure effective risk management, control and governance processes.”*
- 2.2 The mission of the Internal Audit Service is to *“Promote and support the Council’s vision for the City of Bristol and values for the organisation, by providing independent, risk-based and objective assurance, fraud/irregularity investigation where appropriate, advice and insight”*
- 2.3 Internal Audit must comply with the Public Sector Internal Audit Standards (PSIAS) which became mandatory across the UK public sector from the 1 April 2013 and were further updated in April 2017. The purpose of the PSIAS is to define the nature of internal auditing within the UK public sector, set basic principles for carrying out internal audit, establish a framework for providing internal audit services and establish the basis for the evaluation of internal audit performance and to drive improvement planning.

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. *Scope of Internal Audit:***

3.1 The scope for Internal Audit work includes the whole control environment comprising risk management, internal control and governance. This effectively means that Internal Audit has independent oversight of all of the Council's operations, resources, services and processes in place to:

- Establish and monitor the achievement of Council objectives
- Identify, assess and manage the risks to achieving the Council's objectives
- Facilitate policy and decision making
- Ensure the economical, effective and efficient use of resources
- Ensure compliance with established policies, procedures, laws and regulations
- Safeguard assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting.

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

3.3 Where the Chief Internal Auditor considers that the scope of audit work is being restricted, the s151 Officer and the Audit Committee will be advised of this.

### **4. *Authority:***

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

4.2 The Accounts and Audit Regulations (England) 2015 provide that:

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

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

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

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

### **5.1 *Definitions:***

For the purpose of this Charter, Terms of Reference and Strategic Statement 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
- *Head of Paid Service* - is the Executive Director: Resources- 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 s151 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.

## 5.2 **Senior Management/Officer Responsibilities:**

The responsibilities Senior Management/Officer are summarised below:

- 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 recommendation 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.

## 5.3 **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 S151 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.

## **6. *Accountability:***

- 6.1 Internal Audit is located within the Resources Directorate. The Chief Internal Auditor is line managed by the Director of Finance (s151) who monitors the performance of the Chief Internal Auditor and the audit function. The Director of Finance is a CLB member in their own right. These management arrangements meet the CIPFA expectation that the Chief Internal Auditor should be line managed by a member of the CLB.
- 6.2 The Chief Internal Auditor has unfettered access to the members of the CLB. The Audit Committee should also have input into the Chief Internal Auditor's annual appraisal.
- 6.3 The Chief Internal Auditor reports functionally to the Audit Committee in terms of approving the Internal Audit Charter, Terms of Reference and Strategic Statement and risk based plan; reviewing the Internal Audit's performance and effectiveness and receiving the Chief Internal Auditor's Annual Report and other reports.
- 6.4 The Chief Internal Auditor has direct access to the Chair of Audit Committee and has the opportunity to meet with the Audit Committee in private.

## **7. *Independence and Objectivity:***

- 7.1 Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management. The Chief Internal Auditor reports to the Audit Committee, on a regular basis, on the organisational independence of the Internal Audit service.
- 7.2 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 Head of Paid Service and the CLB. The Chief Internal Auditor reports in his/her own name to the CLB and the Audit Committee.
- 7.3 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.

- 7.4 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.
- 7.5 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.
- 7.6 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.
- 7.7 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.
- 7.8 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.
- 7.9 The Chief Internal Auditor no longer has line management responsibility for the workforce members that administer the Council's Corporate Risk Register and provide support and guidance to Council colleagues on risk management. This change has removed a potential conflict of interest in Internal Audit reporting objectively on the existence and operation of risk management in the Council.

## **8. *Ethics:***

- 8.1 To enhance the environment of trust between Internal Audit and management, all staff involved in the delivery of Internal Audit services complies 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 standards are observed:

- Integrity - performing work with honesty, diligence and responsibility
- Objectivity - making a balanced assessment of all the relevant circumstances, not unduly influenced by personal interests or by others in forming judgements
- Confidentiality - respecting the value and ownership of information obtained and not disclosing information without appropriate authority, unless there is a legal or professional obligation to do so
- Competence and due professional care - applying the knowledge, skills and experience needed in the performance of work.

8.2 Internal Auditors are required to complete a Declaration of Interest every two years to ensure that any interests are known by management and safeguards can be put in place as required. Additionally, they are required to declare any potential conflicts of interest at the start of an audit assignment.

## **9. *Internal Audit Activities:***

### Internal Audit Plan

- 9.1 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.
- 9.2 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.
- 9.3 The audit plan is discussed with the CLB and the s151 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.

### **Audit and Assurance Reviews**

- 9.4 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.
- 9.5 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 Head of Services / Director / Executive Director.

- 9.6 The completion of each planned assignment leads to individual reports to Heads of Service and /or Directors of Service and Executive Directors and these 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.

#### **Fraud and Irregularity work**

- 9.7 Internal Auditors plan and evaluate their work to have a reasonable chance of detecting fraud; however the managing of the risk of fraud and corruption is the responsibility of management.
- 9.8 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.
- 9.9 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.
- 9.10 In addition to determining the extent of the fraud, attention is given to correction of any control failures to prevent recurrence of the fraud.
- 9.11 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.

#### **Consultancy Reviews as Requested/Required**

- 9.12 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.
- 9.13 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.
- 9.14 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.
- 9.15 Where significant consultancy reviews are commissioned in year, outside of the approved plan, then Audit Committee approval is sought in advance.



## **External Clients**

9.16 Internal Audit provides internal audit services and assurances to a number of public sector / quasi-public sector clients including WECA (grant certifications), Bristol Waste and Academies.

### **10. Resources and Skills:**

10.1 In order to ensure an adequate and effective service is maintained, Internal Audit must have adequate budgetary resources to maintain organisational independence and be appropriately staffed in terms of numbers and skills. The Chief Internal Auditor is responsible for ensuring that resources and skills in the audit team are in place. Where resources available are felt to be insufficient to deliver the annual audit plan, the Chief Internal Auditor will advise the s151 Officer and the Audit Committee of this.

10.2 The staffing structure of Internal Audit is divided into two key areas:

- *Assurance* – dedicated to delivering the planned and unplanned assurance work
- *Counter Fraud and Investigations*– dedicated to both pro-active anti-fraud risk work and responding to fraud and irregularity reported to Internal Audit

10.3 The Internal Audit establishment is comprised of a mixture of qualified accountants, auditors and fraud investigators as well as a number of trainee posts. These include general audit skills in respect of reviews of internal control, risk and governance and appropriate specialism in areas such as computer audit, contract audit and investigation of fraud.

10.4 Where audits require access to specialist expertise and knowledge that is not available within the audit team, the advice of specialist experts from within the Council, or, as necessary, externally is sought.

10.5 A continuous review of training and development required for all Internal Audit staff is undertaken as part of the Corporate performance framework. These requirements are developed into a Training Strategy with a specific resource for training and development earmarked in the annual audit plan.

### **11. Reporting; Follow Up and Escalation Procedures:**

11.1 Following the completion of all audit assignments an internal audit report is issued containing an opinion on the level of assurance that can be deemed from the control environment. The report identifies concerns and prioritises recommended improvement actions based on the level of risk resulting from the control weakness. The appropriate Head of Service / Director and/or Executive Director is asked to respond to the report agreeing or otherwise, to implement the recommendations and assigning responsibility and time-scales for doing so.

- 11.2 Where the overall level of residual risk to the Council is assigned as Red or Amber, the implementation of recommendations is followed up in line with the follow up and escalation procedure established by the Chief Internal Auditor.
- 11.3 Under the escalation element of this procedure, any high or medium recommendations which are either not accepted or not implemented are regularly reported to the Executive Directorate's leadership team (EDM), relevant to the area reviewed. The progress made on recommendation implementation is also reported to the Audit Committee as part of its regular activity reports. Repeated failure to implement recommendations will be reported to CLB and the Audit Committee, who may call the appropriate manager to account for the failure to correct the control environment.
- 11.4 The Chief Internal Auditor routinely reports to the Audit Committee providing Activity Reports to every meeting, together with an annual report of Internal Audit activity with 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.

## **12. Performance:**

- 12.1 The PSIAS require the Chief Internal Auditor to have a performance management and quality assurance framework in place to demonstrate that the Internal Audit Service.
- Meets its aims and objectives
  - Meets internal quality standards
  - Is effective, efficient and continuously improving
  - Is adding value and assisting the organisation in achieving its objectives.
- 12.2 The performance, quality and effectiveness of Internal Audit is measured in a suite of performance indicators which are maintained locally and reported to the Audit Committee. These include qualitative targets concerning auditee feedback in the form of Quality Assurance Questionnaire scores which are issued to auditees following the completion of each audit.
- 12.3 Internal Audit operates a system of close supervision of audit work and management review of audit files to ensure each audit has been completed to standard. Audit reports are signed off by the Chief Internal Auditor prior to issue.
- 12.4 Internal Audit continually self-assesses its performance against achievement of its aims and objectives. It also benchmarks key elements of its service. The PSIAS requires Internal Audit to put in place a Quality Assurance and Improvement Programme (QAIP) including periodic self-assessments and externally validated self-assessments against compliance with the PSIAS. A formal action plan is prepared following each self-assessment.

- 12.5 The external validation of Internal Audit's self-assessment against PSIAS is undertaken through a peer review programme with Core City Local Authorities. This provides assurance over the effectiveness of Internal Audit and also an opportunity to benchmark and share good practice across comparable services.
- 12.6 The outcomes of self-assessments and external validations are reported to the Audit Committee.

### **13. Collaboration and Liaison with Other Auditors**

- 13.1 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.
- 13.2 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.

### **14. Strategic Statement:**

- 14.1 The PSIAS require internal audit's risk-based plan to incorporate or link to a strategic or high-level statement of:
- How the Internal Audit service will be delivered
  - How the Internal Audit service will be developed
  - How the Internal Audit service links to organisational objectives and priorities.
- 14.2 Following the 2016 Council elections, the Council has revised its strategic objectives and corporate plans. The Council continues to face significant financial challenge through changes to the central funding regime.
- 14.3 Internal Audit will contribute to the achievement of the Council's objectives by:
- Providing objective assurance on the Council's internal control, governance and risk management arrangements
  - Identifying and reporting significant risk exposures and control issues and making recommendations for improvement
  - Promoting a robust and proactive approach to fraud identification and investigation
  - Promoting effective internal control risk management and governance arrangements across the Council

- Supporting the development of Council services through appropriate consultancy work and advice
  - Focussing on monitoring compliance with statutory requirements and Council systems to ensure consistency in the use of Council resources
  - Focussing in all its work on the identification of opportunities for improving value for money in the delivery of Council services
  - Working in constructive partnership with the elected Mayor, the Audit Committee and Council management.
- 14.4 Internal Audit services will be delivered through its core staff, drawing in additional expertise from within the Council and externally as needed.
- 14.5 Reliance will be placed where appropriate on other sources of assurance, both internal and external. External sources of assurance will include Government Inspectorates, the Council's External Auditor and the Internal Audit Services of neighbouring local authorities where services are shared or delivered jointly.
- 14.6 The Internal Audit service will be developed through:
- Keeping its plans under close review so it can respond flexibly to changes in the City Council's priorities and risks
  - Feedback from users of the service including management, the Audit Committee and the External Auditor
  - The QAIP and internal self-assessment of compliance with the PSIAS with periodic external validation of the self-assessment
  - Sharing of good practice and benchmarking with the Internal Audit services of the Core Cities Local Authorities
  - Having due regard to other sources of good practice such as CIPFA and the IIA
  - Training and development for staff identified through the Council's employee performance management scheme, through management supervision and by Internal Audit staff themselves
  - Responding to opportunities to work more efficiently, taking advantage of developments in 'agile working' and new technology.
- 14.7 As the Council develops and implements its strategy for 2017/18 to 2019/20 so Internal Audit will develop this strategic statement into a formal strategy covering the same period.
- 15. *Review of the Internal Audit Charter, Terms of Reference and Strategic Statement:***

- 15.1 In accordance with the PSIAS, the Internal Audit Charter, Terms of Reference and Strategic Statement is reviewed annually and presented to the Audit Committee for reconsideration and approval, as appropriate.

*Interim Chief Internal Auditor*

Reviewed: November 2018

Approved by: *Audit Committee (TBC)*