A

BRISTOL
INTERNAL AUDIT

INTERNAL AUDIT:

DRAFT PLAN 2019/20

Date: March 2019

Jonathan Idle
Chief Internal Auditor
Jonathan.Idle@bristol.gov.uk
Alison Mullis/Melanie Henchy-McCarthy
Head of Internal Audit
Alison.mullis@bristol.gov.uk/ melanie.henchy-mccarthy@bristol.gov.uk

1.   Purpose of this Annual Plan Report

1.1   This report provides an overview of Internal Audit's proposed work plan for 2019/20. Its purpose is to:

- Provide the Audit Committee with the draft planned Audit coverage for 2019/20
- Provide details of the methodology used to formulate the plan
- Draw attention to key features of the proposed plan
- Provide details on the plan monitoring process, together with the follow-up and escalation process.

2.   Formulation of the 2019/20 Audit Plan

2.1   The Internal Audit planning process reflects the requirements of the Public Sector Internal Audit Standards 2013 (PSIAS) and supporting Local Government Application Note produced by CIPFA/CIIA. It results in an audit plan which should:

- Ensure a complete a programme of work is planned to enable provision of an evidence based opinion on the whole risk management, governance and control environment to the Head of Paid Service 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 the team are in a position to deliver other elements of work carried out on behalf of the Council which also support the 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 work is planned so that the maximum benefit is achieved in respect of the above aims and that the team complete work which is risk based and adding value. In preparing the audit plan, work is designed to provide assurance in key areas within the Council's risk, governance and control environment as demonstrated by Figure 1.

Figure 1: Key Areas of the Control Environment
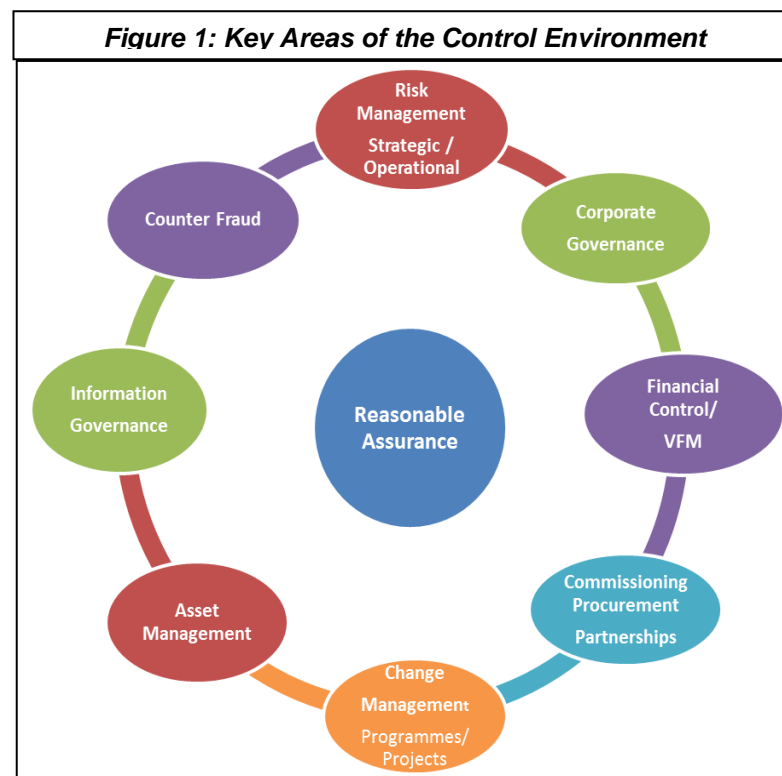
2.3 In developing the plan, a desk top review has been undertaken of the potential risk areas for audit review including consideration of:
- The risks recorded in the Corporate Risk Register to determine the need to provide independent assurance regarding the management of those risks
- The Council's 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 audit work completed last year to determine where further work or 'follow up' reviews are required.
- The budget proposals for the Council.

2.4 Additionally, consultation with officers and Members has taken place as follows to ensure a correct assessment of the risks to achievement of the Council's objectives and to ensure a clear understanding of how Internal Audit work fits with other sources of assurance:

- The Corporate Leadership Board
- Executive Directorate Management Teams
- Monitoring Officer
- S.151 Officer
- IT and Information Security Colleagues
- Finance Managers

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:

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

2.6 The outcome of the above process is the draft annual plan at Appendix 1. The plan sets out a work programme that will enable formation of 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. However, recognising that the Council's risk profile may change during the year, the plan will be reviewed quarterly to ensure it remains relevant throughout the year.

2.7 Appendix 2 provides fuller details of the intended coverage.

3. Resources

3.1   In April 2017, the team was joined by an Interim Chief Internal Auditor to provide strategic support to enhance organisational ownership of governance, risk management and internal control. This has included reviewing the Internal Audit Service and development and delivery of an improvement action plan.

3.2   A team review and restructure has now been completed and has seen resources available to the team increase. Recruitment to new/existing vacant posts within the new structure is progressing well however the team will commence the year with 4 vacancies whilst recruitment continues. The audit plan has been based on a resourcing assumption that all vacancies are filled by the end of the first quarter with two posts being kept vacant for longer periods to fund buy in of skills required and temporary resource commitments already made. As permenant recruitments progress, the teams dependency on temporary resource will reduce to use only in exceptional circumstances.

3.3   The restructure has seen changes to resource availiable to the team in the following areas:

- Management resource has been increased by the addition of a new strategic management post of Chief Internal Auditor. This role will focus on the strategic delivery of the service and relationships management to enhance the profile of internal control and contribute to improving governance across the Council. Continued preparation of the team to a position where it can offer more services commercially is also key to this role going forward.
- Fraud Team resources have been enhanced to include a further managerial role to allow focus to be maintained on both the proactive and responsive work elements undertaken. An additional investigator resource has been added and a permenant (previously seconded) Housing Advisor role on the team has been secured.
- Senior Auditor numbers in the Assurance Team have been increased by one whilst more junior roles have decreased. This is to reflect the more complex nature of work required of the team.
- A Data Analyst resource has been added to the team structure to enhance the use of data in both Audit and Fraud prevention and detetion work.
- Trainee posts within the team have also increased to provide opportunities to develop competent auditors going forward in a market place where it is difficult to recruit appropriately experienced and qualified audit staff. As well as retaining an apprentice role in the team, a Graduate Trainee post has now been established.

3.4   The team has secured, subject to internal approval processes, the continued support of a specialist IT audit resource which will predominantly be used to provide independent assurance concerning the IT improvement programme – the Future State Assessment Programme.

3.5   Table 1 below provides the Committee with a summary view of the proposed coverage for 2019/20, split by audit type and providing indicative days to be spent in each area. It also provide details of days allocated in prevous years. Details of the Audit reviews planned in each area for 2019/20 are provided in Appendices 1 and 2.

Table 1: Summary of proposed Audit Plan 2019/20 with previous year comparatives:

Area of Work	Indicative Days 2019/20	Indicative Days 2018/19
• Governance Systems	195	245
• Risk Management Effectiveness	140	205
• Financial Control Systems	255	285
• Certifications	150	150
• Schools Financial Governance	100	100
• Value for Money Exercises	50	42
• Commissioning and Procurement	100	120
• Asset Management	95	100
• Information Security	175	145
• Projects and Programme Management	170	195
• **Follow up provision**	**176**	**60**
• **General Contingency**	**200**	**100**
• **Total Risk, Governance, Assurance**	**1806**	**1747**
• Counter Fraud		
• Strategic Fraud Work	19	8
• Fraud Prevention	273	97
• Fraud Detection (incl tenancy fraud work)	814	743
• Responsive Fraud Investigation excl Tenancy (including DWP interface)	550	418
• **Total Fraud**	**1656**	**1266**
Total Planned Coverage	**3462**	**3013**
Total Available Productive Days	**3467**	**2846**

3.6 For each audit assignment planned, the resource required is estimated. 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 Plan includes an allocation of days for reactive/responsive work that will inevitably arise during the year.

3.7 The Audit Plan needs to be flexible to ensure it can change as the Council's risk environment changes. As such, the plan will be reviewed quarterly. Any amendments to the plan will be reported to management and the Audit Committee during the year.

3.8 Whilst Value for Money (VfM) work represents a small percentage of the overall Audit plan, it is integral to all of the work completed and is considered at each audit assignment as a matter of course. A small contingency is also included for specific and targeted VfM work that is not specifically covered elsewhere in the plan. Additionally proactive fraud and irregularity work often identifies significant VfM opportunities.

4. The Audit Plan – Key Features

4.1 The plan reflects the highest risk areas to the Council and is designed to ensure that assurance is targeted effectively to enable provision of an opinion on the whole governance, risk and control framework. Significantly, this year, approaches include:

- **Flexibility and Responsiveness** – recognising that independent assurance requirements and organisational risks will change during the year, more flexibility has been built into the plan:
  - Contingencies have been included in the Audit side of the plan to allow for additional in year work requests should they arise and finalisation of work carried forward from 2018/19. This will enable the team to accept a limited number of requests for work in year without impacting on the planned work for 2019/20.
  - Resources for responsive fraud investigation work have been increased to ensure the team can deliver investigations in a more timely way.
  - Resource allocations have been made in the following areas without specifically defining the scope and coverage at this point. Again this will ensure that, at the time the piece of work is delivered, resources are targeted most effectively to provide the maximum value to the organisation:
    - Risk Management – see below
    - Grant Certifications
    - Schools Assurance
    - Projects and Programme
    - Procurement
  - Additionally, the plan will be reviewed quarterly and 'flexed' if necessary to reflects any change in risks to the organisation

- **Risk Management.** The plan reflects that the organistaion now has a dedicated risk management resource. This has resulted in a much more dynamic corporate risk register than previously and potentially enhanced 'second line' assurance. As such, the plan in this area has been left flexible to allow for detailed review of areas of Corporate Risk each quarter without being specific at this time. The risk to be reviewed will be selected following quartlery reviews of the Corproate Risk Register and based on the levels of risk indicated. Quarterly meetings between Internal Audit and the Risk Manager should help to ensure these reviews are correctly focussed and support the development of organisational risk maturity. Work will continue this year to develop and refine assurance mapping processes for the highest risks. Assurance mapping aims to provide an overview of the different sources of assurances that are in place to manage risks and ensure those assurances are robust. It considers the extent to which three core sources of assurance are in place – commonly called the 'three lines of defence' further explained in this diagram.
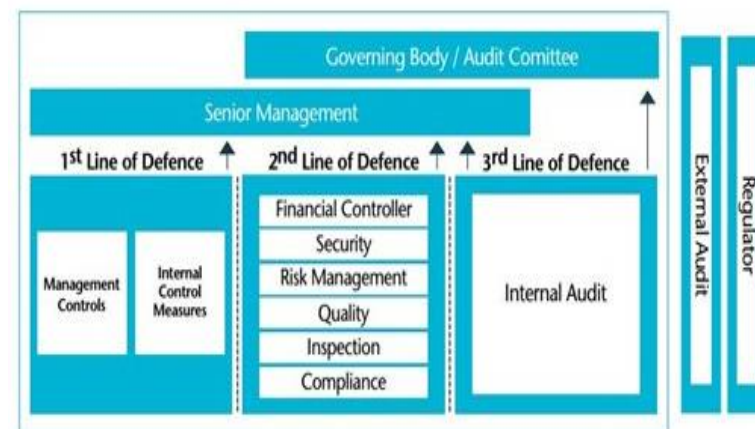
- **Follow up.** The plan includes increased resources for follow up work. Where Internal Audit reports include high and medium priority recommendations for improvement, follow up work is carried out to confirm implementation of recommendations. Given the number of audit reviews concluding only limited assurance can be provided, the need for follow up is greater. Additionally, Internal Audit are working with management to improve the implementation rate of improvement recommendations made. The Activity Report being considered at this meeting provides fuller detail in this area.

- **Use of Data and Analytics** to both target audit resource and enhance fraud prevention and detection remains a key element of the plan. Provision in the structure of a Data Analyst role will enable the team to develop audit approaches designed to give greater levels of assurance and ensure resource is targeted in the most beneficial areas. Procurement and continued work on Direct Payments are areas we have specifically identified for this but use of this technique in much wider areas is envisaged. Additionally, significant resource has been allocated in the plan to expedite development of data matching, warehousing or a fraud 'hub' in the prevention and detection of fraud.

- **Information Security and IT Asset Management.** The Council is currently reviewing its IT infrastructure and how that needs development to ensure resilient and digital delivery of services going forward. Management and organisational changes in this area sees IT and information security rising as a priority in the audit plan. Specialist resource has been commissioned to oversee implementation of IT improvements and in house resources will target information goveranance and security arrangements in place testing the embeddedness of GDPR and other information security standards.

- **Financial Governance.** The plan retains a significant focus on financial control. As budget pressures continue across the Council, strong financial control is paramount to ensure the Council's financial resilience is secured. The plan includes significant resource allocation to the certification of grant claims to enable the Council to maximise income from this source.

- **Tenancy Fraud.** The year will begin with a significant piece of work around tenancy fraud – a key amnesty – which will, for a fixed period of time, encourage tenants who no longer need or use their council house to hand back the keys so it can be re-allocated to people with a genuine housing need. Advertising this begins in March 2019 and continues into April and May 2019.

4.2 **Team Development and Improvement**. As well as delivering the Assurance and Counter Fraud programmes set out in the Audit Plan, a significant amount of time has been set aside to continue to develop and improve the services offered by the team during 2019/20. Action plans resulting from the external Peer Review of the audit team in February 2018 continue to be implemented with continual improvement to process and procedures required to ensure that both management and the Audit Committee continue to have confidence in the outcomes of the work completed. Early priorities for 2019/20 include:

- Recruitment to remaining posts in the new structure.
- Implementing the reporting formats used by the team and how audit opinions are expressed to ensure greater clarity. (The Audit Committee will receive a separate paper on this at a future meeting).
- Training staff in analytics based software
- Delivery of a training strategy for the team
- Continued review of audit processes and documentation to ensure a lean and efficient approach
- Growing the volume of business with a view to increasing income generation to enhance the resilience of the team going forward.

5. Plan Monitoring

5.1 Performance against completion of the annual plan will be measured and reported in Internal Audit Activity reports at most Audit Committee meetings. The Audit Committee approved the Quality Assurance and Improvement Programme during 2017/18 which set out some key performance indicators for the team. The development of a business plan for the audit team has seen performance targets reviewed and the following will be reported to Audit Committee going forward:

- Delivery of Internal Audit Plan – Complete to at least draft report stage   90%
- Compliance with Public Sector Internal Audit Standards   95%
- Delivery of Audit Opinion in time to inform the Annual Governance Statement (AGS)   May 2019
- Deliver of Counter Fraud Awareness Training Plan   90%
- Number of properties recovered by Tenancy Fraud Initiative   40
- Level of Recommendations Implemented (Fully or Partially)   90%
- Client Satisfaction (post individual audit review) with a score of good or above   85%
- Positive responses to annual management survey re benefits and value of audit service   90%
- Delivery of AGS in line with statutory timeframe   May 2019

6. Follow Up and Escalation

6.1 As detailed above, monitoring the implementation of audit recommendations remains key.

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 Executive Directors or Directors/Heads of Service 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.

7.4   There is one area of work that the team does deal with operationally on behalf of the Council; facilitating the preparation and review of the Annual Governance Statement.   There are synergies between this and audit work and they are well aligned to the assurances that Internal Audit seek to provide. The External Auditor, however, independently 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 2018/19 and as such completion of this work is not felt to be an issue.