

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: **AUDIT COMMITTEE**

Report of: **Acting Assistant Director, Audit & Risk Management**

Date of Meeting: **22nd November 2016**

Subject: **Birmingham Audit - Half Year Update Report 2016/17**

Wards Affected: **All**

1. PURPOSE OF REPORT

1.1 The attached report provides Members with information on:

- outputs and performance measures in relation to the provision of the internal audit service during the first half of 2016/17; and
- the outcome of the external assessment against the Public Sector Internal Audit Standards (PSIAS).

2. RECOMMENDATIONS

2.1 Members are asked to note the content of the report.

3. LEGAL AND RESOURCE IMPLICATIONS

The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. The work is carried out within the approved budget.

4. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the internal audit plan.

Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

5. COMPLIANCE ISSUES

City Council policies, plans and strategies have been complied with.

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Birmingham Audit Half Year Report 2016/17

22nd November 2016

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1. Background

- 1.1 The 2016/17 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. It also had due regard for the protocol with the External Auditors and took account of responsibilities under section 151 of the Local Government Act 1972.
- 1.2 The Council continues to go through significant change. The drivers for change being both organisational and financial. During a period of change it is important that any increased business risks are identified and managed in an effective manner. Our 2016/17 audit plan reflected these changes by concentrating on those areas of highest risk.
- 1.3 The 2016/17 audit plan was approved by the Audit Committee at the June 2016 meeting. This report provides a summary of the progress made in delivering this agreed plan.

2. Added Value Services

- 2.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives, and on working in an innovative and collaborative way with managers; to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the first half of 2016/17 include:
 - Further extension and use of the data warehouse to detect and prevent crime, fraud and error including the provision of intelligence to a number of partners and agencies, eg: the Police & Fire Service.
 - Using the Audit Data Warehouse to help the Council track pupils identified as missing from education.
 - Audit recommendations and support to:
 - assist the Child Protection service in developing / improving the case conference process and engagement with children;
 - improve social work with families; and

- extend the use of pathway plans within placements team plans to ensure that young people are equipped to deal with transition to adulthood.

3. Performance

3.1 Outputs

During the first half of 2016/17 we issued 120 final reports.

Reports by Type	2015/16	2016/17 (Apr – Sept)
Internal Audit Reviews	105	57
Follow up Reviews	35	14
School Visits	27	38
Investigations	24	11
Proactive / Management Reviews	7	-
Total	198	120

In accordance with the procedure for sharing Internal Audit reports, all Audit Committee Members are provided with a list of final audit reports issued each month, together with details of risk and assurance ratings. Members are able to request copies of reports and receive further information.

A full list of the reports issued during the first half year, including details of how the reviews link to the Council's priorities, core objective of good governance, the Corporate Risk Register and financial assurance is detailed in Appendix A.

Audit and follow up reports are given a risk rating of 1 - 3 to assist in the identification of the level of corporate importance. The key to the ratings given is:

1. Low - Non material issues.
2. Medium - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance.
3. High - Matters which in our view are of high corporate importance, high financial materiality, significant reputation risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

Of the 109 reports (57 Internal Audit, 38 School Visits and 14 Follow up Reviews) issued, 1 was given a red level 3 risk rating, 36 had an amber level 2 rating and 72 had a green level 1 rating.

A summary of the significant findings from our work is detailed in Appendix B.

3.2 Plan Completion

As at 30th September 2016 we had completed 39% of planned jobs against the September target of 40%, and annual target of 95%.

3.3 Corporate Fraud Team

The Corporate Fraud Team (CFT) is responsible for the investigation of financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The Team identify how fraud, or other irregularity has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future.

The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) for the year to date:

	2015/16	2016/17 (Apr – Sept)
Number of outstanding investigations at the beginning of the year	19	14
Number of fraud referrals taken on during the year	139	57
Number of investigations concluded during the year	144	36
Number of investigations outstanding at the end of the year	14	35

All referrals are risk assessed to ensure that our limited resource is focused on the areas of greatest risk. We work in conjunction with managers to ensure that any referrals that are not formally investigated by us are appropriately actioned.

Within the CFT there is a sub-team specifically established to tackle ‘application based’ fraud, primarily related to Social Housing and Council Tax. Their results are summarised in the table below:

	2015/16	2016/17 (Apr – Sept)
Properties Recovered	95	23
Applications Cancelled	300	119
Reduced Points (Applications)	77	28
Housing Benefit Overpayment	£562,291	£207,955
Council Tax Change	£180,167	£180,173

4. Compliance with the Public Sector Internal Audit Standards (PSIAS)

- 4.1 The PSIAS became effective from 1st April 2013. These standards set out the fundamental requirements for the professional practice of internal auditing within the public sector.
- 4.2 During 2015/16 we undertook a full self-assessment to identify Birmingham Audit's level of compliance with the standards. In July 2016 an independent assessment was undertaken by colleagues from Bristol City Council. Their assessment identified that:

"Birmingham City Council's Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards" and that "Our external assessment found that BCC's Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. This is achieved through both the delivery of the planned programme of audit work but also the active engagement and involvement of the Audit Service in developing systems and corporate working groups."

The review identified a number of recommendations to further enhance processes. These recommendations have been accepted and are being implemented. A copy of the external report is attached as Appendix C.

5. Resources

- 5.1 The Council faces a number of financial challenges and has identified the need to make significant financial savings. Birmingham Audit is required to contribute to these savings. We continually review our working practices, methodologies and structure to ensure they remain appropriate and support the organisation. With effect from 1st October 2016 a revised team structure was implemented. This revised structure sees the consolidation of service based audit teams from three separate teams into a single team. This revised structure enables saving to be achieved through the consolidation of Group Auditors whilst minimising the impact on the audit plan.

6. Completion of the Internal Audit Plan 2016/17

- 6.1 The 2016/17 plan contains 5,443 days (4493 days excluding the Schools Team). The table below details completion as at 30th September 2016.

	2016/17 %	2016/17 Planned Days	Actual Days as at (Apr – Sept)	% Coverage
Number of Audit Days in the annual plan	100%	5,443	2,448	45%
Main financial systems	16	860	439	51
Business controls assurance	35	1875	798	43
Investigations	15	840	361	43
Schools (Non Visits)	4	195	37	19
Schools (Visits)	17	950	465	49
Follow up work	4	225	49	22
Ad-hoc work	5	273	169	62
Planning & reporting	3	180	120	67
City initiatives	1	45	10	22

Reports Issued During the First Half of 2016/17
Audit Reviews (57 Reports):

Key to linkages to the Council's areas of priority, core objective of good governance, Corporate Risk Register and financial assurance:

1. Children (a great city to grow up in)
2. Jobs & skills (a great city to succeed in)
3. Housing (a great city to live in)
4. Health (a great city to lead a healthy and active life in)
5. Good Governance
6. The Corporate Risk Register (CRR - based on the version which went to Audit Committee on 26th July 2016)
7. Financial Assurance

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Acivico Contract Monitoring - Overall Delivery of Contract	Medium	2					✓	✓	
Savings Plan - Progress	Medium	2					✓	✓	
Sophos Post Implementation Review	Medium	2							
Child Protection Case Conferences - Engagement	Medium	2	✓					✓	
Adults Direct Payment	Medium	3				✓			
Dealing with Excluded Pupils	Medium	3	✓					✓	
Sexual Health Contract - Effectiveness of Commissioning	Medium	3	✓						
Northgate Housing Security	Medium	3			✓				
BMHT Property Transactions	Medium	3			✓				

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Financial Control Review	Medium	2					✓		
Contracts and Procurement Summary Report 2015/16	Medium	3							✓
Children Missing From Education	Medium	3	✓					✓	
Tenancy Management	Medium	3			✓				
Accounting for Non HRA Assets	Medium	3					✓		
Effective Social Working With Families	Medium	3	✓					✓	
CareFirst	Medium	3	✓					✓	
Sexual Health Contract - Identification of Child Sexual Exploitation	Medium	3	✓					✓	
Cityserve Financial Control Review	Medium	3					✓		
Annual Tenancy Visits 2017	Medium	3			✓				
Database Security 2017	Medium	3					✓		
Quotation Process	Medium	3							✓
Markets	Medium	3							✓
AP - Purchase Cards - Directorates / Youth Service	Medium	3	✓						
IT Disaster Recovery 2017	Medium	2					✓		
Operating System Security 2017	Medium	3					✓		
Public Health Restructure and Service Redesign - Governance	Medium	2				✓			
Resilience - Business Continuity Plannig for Critical Services	Medium	3					✓	✓	
Carefirst Voyager Master Data	Low	2						✓	
Vendor Master Data	Low	2							✓
Cancellation and Write Offs	Low	2							✓
Corporate Payroll Transaction Testing	Low	2							✓
Lost and Stolen IT Equipment	Low	2							✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Human Resources Subject Access Request	Low	2	✓					✓	
Children's Direct Payments	Low	2	✓					✓	
Carefirst IT Review	Low	2	✓					✓	
AP - Validation of High Value Payments - Greater Than 75k	Low	1					✓		
AR - Processing & Payment Methods	Low	2							✓
Benefit Service - Discretionary Housing Payments	Low	2			✓				
Corporate Payroll Annual Summary Report 2015/16	Low	2							✓
AR Annual Summary Report 2015/16	Low	2							✓
N3 Network	Low	2				✓			
Environmental Health	Low	2				✓			
Ethics	Low	1					✓		
Acivico Contract Monitoring - Final Accounts Process	Low	3					✓	✓	
Highways PFI	Low	2						✓	
Rent Collection & Charges - Introductory Tenancy Process - Case Panel Review	Low	2			✓				
E-Procurement - IT Security (In-Tend System)	Low	2					✓		
Housing Visiting Programme Mobile Solution	Low	3			✓				
Destin Manual	Low	2							
Quality Checks - Housing Benefits	Low	2			✓				
AR - Recovery of employee related debts	Low	2							✓
Mobile Devices	Low	3							✓
Billing & debt recovery processes within business areas	Low	1							✓
Directory Services 2017	Low	2							✓
AP - Activities in Directorates	Low	2							✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Complaints - Revenues and Benefit Service	Low	1					✓		
Non Invoiced Income - Car Parking Income	Low	2							✓

Follow Up Reports (14 Reports):

Title	Risk Rating Council
Deprivation of Liberty Standards Follow Up	High
IT Project Governance Follow Up	Medium
Independent Living Follow Up	Medium
Management of Voids Follow Up	Medium
SAP GRC Follow Up	Medium
Information Governance - Adoption & Fostering Follow Up	Medium
Young Adults Re-provisioning Follow Up	Medium
Personal Education Plans Follow Up	Medium
Corporate Asset Management Follow Up	Low
Reconciliation of Control Accounts Follow Up	Low
Children with Complex Needs - Complaints Procedures Follow Up	Low
Caldicott Guardian Follow Up	Low
Web Page Security Follow Up	Low
SAP Roadmap Follow Up	Low

Investigation Reports (11 Reports)

School Visits (38 Reports)

Summary of Significant Findings

Red High Risk Reports

During the first half of 2016/17 we issued 1 report, where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in this report are detailed below:

Deprivation of Liberty Standards Follow Up - Deprivation of Liberty Safeguards (DoLs) assessments continues to be a national problem. Whilst there is ongoing activity to review and amend the Mental Capacity Act in relation to when a DoLs assessment is required, any potential change to legislation is not expected to be in place until 2020. We acknowledge that this is not a Council specific problem and have seen evidence that the arrangements to manage and monitor assessments have improved. The Directorate have progressed the previously agreed actions, no new recommendations were identified.

School Visits

During the first half of 2016/17 we have continued to work with both Directorate and school colleagues to ensure we undertake a robust and added value audit of key elements of school strategic and operational service delivery. Our work programme has changed in line with the main aims and objectives of the Directorate, and to reflect concerns and priorities within schools. The focus of our work has been on governance, financial management and elements of safeguarding. The main issues identified are:

- **Governance** - Workload pressures on Governing Bodies continue to increase, and this has contributed to delays in Governing Bodies responding to the need to self-evaluate their skills and their impact on the school.
- **Financial Governance** - Weaknesses in the delegation framework were found in a number of schools; impacting on clarity around financial responsibilities. Improvements are required to the production and submission of the Schools Financial Value Standard return and the Statement of Internal Control, key documents in terms of school self-evaluation.
- **Strategic Oversight** - Governing Bodies are still developing an overarching school strategy which will be used to drive the improvement plan.

- **Budget Planning** - Whilst day to day financial management was well established, a high proportion of schools are relying on carry forward surpluses to set a balance budget. This poses a risk for future years.
- **Delegated Powers** - There has been a degree of non-compliance with school financial procedures and the delegation framework for schools expenditure, in-particular the effective monitoring of cumulative expenditure to ensure value for money is obtained.
- **Safeguarding** - Schools were well aware of their responsibilities in relation to safeguarding children and take that responsibility seriously. However, improvements are required in respect of the effective monitoring of IT and Internet use, and undertaking due diligence prior to lettings for both safeguarding and the 'No Platform for Extremism Policy'.
- **Attendance** - Overall attendance was well managed and effective arrangements were in place. Two areas were identified that require further development: the retention of sufficient records where pupils leave a school in year, and ensuring correct codes are used to record attendance.

Overall we have continued to find that the majority of schools visited have effective systems of control in place, and staff and Governors are doing things correctly. There are areas for development which would improve strategic and operational delivery, but in the main, schools are being well managed.

Peer Review of Birmingham City Council Internal Audit Against the UK Public Sector Internal Audit Standards

INTERNAL AUDIT

Report Title: Peer Review of Birmingham City Council Internal Audit Against the UK Public Sector Internal Audit Standards

Date: July 2016

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1. Executive Summary

- 1.1 Bristol Internal Audit Service has undertaken a peer review of Birmingham City Council's (BCC's) Internal Audit Service against The UK Public Sector Internal Audit Standards (PSIAS) in accordance with the Terms of Reference agreed by The Core Cities Chief Internal Auditors' Group. See Appendix B.
- 1.2 In April 2013, a new set of Public Sector Internal Audit Standards (PSIAS) became effective. These standards are mandatory for internal audit in local government. The standards are intended to reflect that "a professional, independent and objective internal audit service is one of the key elements of good governance". The PSIAS introduced a requirement for an external assessment of an organisation's internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
- 1.3 The Core Cities Chief Internal Auditors' Group has established a 'peer- review' process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by 'self- assessment with independent external validation' and this report presents the summary findings of the review carried out on behalf of BCC. The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded.
- 1.4 The PSIAS include a specific definition of Internal Auditing, a Code of Ethics and eleven specific standards. The standards are divided into attribute standard and performance standards. Our external assessment concludes that BCC's Internal Audit Service **conforms** to the requirements of the PSIAS. There are 184 areas within the Standards and only a few partial conformances and non-conformances have been identified which require further development. The opportunity to do this should enhance the strategic and operational function of BCC's Internal Audit Service. These matters do not impact on the overall opinion.

2. Approach/Methodology

- 2.1 The Core Cities Chief Internal Auditors' Group agreed a detailed terms of reference that outlines the broad methodology for the conduct of each peer review. The peer review was undertaken in three stages: pre-review; on-site review; post-review evaluation and reporting. It covered audit activity during the period covered in the latest Head of Internal Audit's annual report 2015/16 and work in the current year to July 2016.
- 2.2 The Acting Assistant Director Audit and Risk Management (the Head of Internal Audit), assisted by the Principal Business Auditor completed a self-assessment of BCC's Internal Audit Service and its compliance with the PSIAS, using the pro-forma in the CIPFA Local Government Application Note, which supports the PSIAS. The self-assessment was evidenced with reference to a range of internal and published documentation.
- 2.3 The self- assessment formed the basis for the external review by way of an independent validation of the self-assessment. This included a review of supporting documentation and details of responsibilities, resources, structure, activity, quality and performance measures and reports. The review team met the Head of Internal Audit and the Principal Business Auditor to discuss elements of the self- assessment.
- 2.4 A sample of audit assignments was examined and compared against the PSIAS requirements. Operational practices and quality assurance processes were discussed and further supporting documentation held on BCC's Internal Audit Service's audit management system, 'Galileo', and document repository, 'SharePoint', reviewed. Discussions were held with Internal Audit staff to confirm audit procedures and process.
- 2.5 The review team met with the Chair of BCC's Audit Committee and observed an Audit Committee Pre-Agenda meeting.
- 2.6 A survey of a sample of main stakeholders in BCC's Internal Audit Service work was compared to the Audit Service's own view of the corporate opinion of their service provision.

3. Audit Findings

- 3.1 Our external assessment found that BCC's Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. This is achieved through both the delivery of the planned programme of audit work but also the active engagement and involvement of the Audit Service in developing systems and corporate working groups. The Head of Internal Audit is well regarded and maintains positive engagement across the Council.
- 3.2 Roles and responsibilities are understood and there is regular, timely communication of audit assurances, issues and concerns to management and Councillors. The Audit Service is accredited to quality standards and the work is undertaken with due diligence and quality assured to a good standard. Good use is made of the automated audit management system and the Council's document repository system. There is a genuine commitment to ongoing service improvement.
- 3.3 We surveyed stakeholders of BCC's Internal Audit Service's work. The survey required respondents to agree or disagree with a number of positive statements made about BCC's Internal Audit Service; 82.5% of responses were 'fully agree' or 'generally agree'. The responses to the survey are shown at Appendix A; senior managers who responded particularly appreciated:
- Their involvement in the formation of the Internal Audit Plan.
 - The professional way in which BCC's Internal Audit Service's work is delivered.
 - The advice of BCC's Internal Audit Service.
 - The positive impact BCC's Internal Audit Service's work has on the Council's governance, risk and systems of internal control and enhancing understanding of these areas across the Council.
- 3.4 These positive messages from senior managers were reinforced by the Chair of the Audit Committee who was very complementary of BCC's Internal Audit Service's work.
- 3.5 We have shared our findings with the Head of Internal Audit who is aware that the specific non-conformances with the standards identified and the impact of these must be disclosed to senior management and the Audit Committee. An action plan has been drafted to respond to areas of partial compliance and non-compliance and this is provided below.

4. Recommendations

4.1 Matters arising from the external assessment have been recorded below together with recommendations to address them and a management response to the issue and recommendation:

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
1	<p>PSIAS Code of Ethics</p> <p>The Code of Ethics requires internal auditors to only carry out services for which they have the necessary knowledge, skills and experience and continually improving their proficiency and effectiveness.</p> <p>We noted that training has a high profile within BCC's Internal Audit Service. There was no evidence that auditors were undertaking work for which they were unsuited. Recent and likely future changes to both the Council's structures and means of delivery and also within the Audit Service mean that ensuring internal auditors have the necessary knowledge, skills and experience to undertake their work to a high standard remains critical.</p> <p>We noted that BCC's Internal Audit Service does not have a formal training strategy in place.</p>	<p>The Head of Internal Audit should draw up a formal training strategy for BCC's Internal Audit Service.</p>	<p>Agreed. This will be incorporated into ongoing work on the identification of the skills required for auditing within the changing environment and development of a supporting training programme.</p> <p>Responsible Officer: Craig Price, Acting AD Audit & Risk Management.</p> <p>Due Date: 31st October 2016.</p>

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
2	<p>PSIAS 1000 Purpose, Authority and Responsibility</p> <p>The Internal Audit Charter should define the terms ‘board’ and ‘senior management’, for the purposes of the internal audit activity.</p> <p>We noted that BCC’s Internal Audit Service had adopted a broad definition that “The term ‘senior managers and the board’, can refer to one or all of the following: Audit Committee, Chief Executive, Assistant Chief Executive or Strategic Director Finance & Legal”.</p> <p>The Board and senior managers have different roles with regard to internal audit activity and we consider that a more narrow definition would provide greater clarity.</p>	<p>The Head of Internal Audit should provide a more precise definition of the ‘board’ and ‘senior management’, for the purposes of the internal audit activity, in BCC’s Internal Audit Service’s Internal Audit Charter.</p>	<p>Agreed. This will be addressed when producing the 2017/18 Internal Audit Charter.</p> <p>Responsible Officer: Craig Price, Acting AD Audit & Risk Management.</p> <p>Due Date: 31st March 2017. To be approved by the Audit Committee in June 2017.</p>
3	<p>PSIAS 1000 Purpose, Authority and Responsibility</p> <p>The Internal Audit Charter should define the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit.</p> <p>We noted that BCC’s Internal Audit Service had not defined these roles within the Internal Audit Charter.</p>	<p>The Head of Internal Audit should define the role of the statutory officers in BCC’s Internal Audit Service’s Internal Audit Charter.</p>	<p>Agreed. This will be addressed when producing the 2017/18 Internal Audit Charter.</p> <p>Responsible Officer: Craig Price, Acting AD Audit & Risk Management.</p> <p>Due Date: 31st March 2017.</p>

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
4	<p>PSIAS 1000 Purpose, Authority and Responsibility</p> <p>The Internal Audit Charter should define the nature of consulting services.</p> <p>We noted that BCC's Internal Audit Service had not defined the nature of consulting services. We were informed that BCC's Internal Audit Service's self-assessment stated that the Audit Service undertook very little consultancy work.</p> <p>We noted that BCC's Internal Audit Service's Annual Report for 2015/16 described several pieces of work as 'Added Value Services' and that the Audit Service also had responsibility for the compilation of the Council's risk register and oversight of the Council's corporate information management.</p> <p>Defining the nature of consulting services and relating this to the work described above would enable the purpose, scope and approach to this work to be clarified.</p>	<p>The Head of Internal Audit should define the nature of consulting services in BCC's Internal Audit Service's Internal Audit Charter and clarify which work undertaken falls within this definition.</p>	<p>Agreed. This will be addressed when producing the 2017/18 Internal Audit Charter.</p> <p>Responsible Officer: Craig Price, Acting AD Audit & Risk Management.</p> <p>Due Date: 31st March 2017.</p>

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
5	<p>PSIAS 1000 Purpose, Authority and Responsibility</p> <p>The PSIAS require the Head of Internal Audit to periodically review the internal audit charter and present it to senior management and the board for approval.</p> <p>We noted that BCC's Internal Audit Charter was approved annually by the Audit Committee. Other documentation such as the BCC's Internal Audit Service Statement is not approved by the Audit Committee, but by the S151 Officer.</p>	<p>The Head of Internal Audit should consider whether other Internal Audit Service documentation should periodically be presented to the Audit Committee for approval.</p>	<p>Agreed. This will be discussed with the Chair of the Audit Committee and any additional documentation identified.</p> <p>Responsible Officer: Craig Price, Acting AD Audit & Risk Management.</p> <p>Due Date: 31st October 2016.</p>
6	<p>PSIAS 1100 Independence and Objectivity</p> <p>The PSIAS require that, to maximise the independence of the Head of Internal audit, the Audit Committee should approve decisions relating to the appointment and removal of the Head of Internal Audit and that the Chair of the Audit Committee should provide input for the Head of Internal Audit's performance appraisal.</p> <p>We noted that the terms of reference of the Audit Committee do not include these responsibilities.</p>	<p>The terms of reference of the Audit Committee should be amended to:</p> <ul style="list-style-type: none"> • Require its involvement in decisions relating to the appointment and removal of the Head of Internal Audit. • Require it to provide feedback for the Head of Internal Audit's annual appraisal. 	<p>PSIAS 1100 & 1110 require Internal Audit to be independent and objective in performing their work and report to a level within the organisation that allows it to fulfil its responsibilities.</p> <p>This is fulfilled by the Head of Internal Audit reporting managerially to the Strategic Director of Finance and Legal (Section 151 Officer and a member of the Corporate Leadership Team) and on a functional basis to the Audit Committee. The Head of Audit is also free to report to the Chief Executive, Monitoring Officer</p>


Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
			<p>or Corporate Leadership Team as appropriate.</p> <p>In line with the Council's agreed employment policies the appointment of the Head of Internal Audit is a decision for the Section 151 Officer in consultation with the Chair of the Audit Committee.</p> <p>Feedback from the Chair of the Audit Committee on the performance of the Head of Internal Audit is currently obtained. A formal arrangement will be established where feedback is sought from Committee Members as part of the Section 151 Officers annual review and report on the effectiveness of the systems internal audit.</p> <p>Responsible Officer: Jon Warlow, Strategic Director Finance and Legal</p> <p>Due Date: 31st March 2017.</p>

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
7	<p>PSIAS 1100 Independence and Objectivity</p> <p>The PSIA requires that, to maximise independence, new auditors should not assess specific operations for which they have been responsible within the previous year and that ongoing assurance work should be rotated periodically within the internal audit team.</p> <p>We noted that there was no formal policy covering these matters although in practice auditors were not allocated work where their independence might be compromised. The Head of Internal Audit commented that auditees found continuity of audit staff beneficial as their previous knowledge made internal audit work more efficient and effective, which we acknowledge.</p>	<p>The Head of Internal Audit should develop a formal policy on the allocation and rotation of audit work. This policy should also reflect the benefits of continuity of audit staff.</p>	<p>This will be considered as part of the ongoing work to develop a training programme and a formal policy documented. The policy will take into account specialist roles, e.g. schools audits / data analysis / fraud investigators and the need for subject matter experts.</p> <p>Responsible Officer: Craig Price, Acting AD Audit & Risk Management.</p> <p>Due Date: 31st December 2016.</p>
8	<p>PSIAS 1311 Internal Assessments</p> <p>The PSIAS require internal auditors to obtain stakeholder feedback as part of ongoing performance monitoring.</p> <p>The need to gain further stakeholder feedback was identified as an area for development in BCC's Internal Audit Service's self-assessment.</p> <p>The survey we undertook as part of this review provides summary feedback from stakeholders which could be used to target service improvement and if repeated used to monitor service improvement over time.</p>	<p>The Head of Internal Audit should consider the outcomes of our survey of stakeholders to inform further development of BCC's Internal Audit Service.</p> <p>The Head of Internal Audit should consider periodically repeating the survey to give a measure of service improvement over time.</p>	<p>Agreed. A project to identify an appropriate method for obtaining meaningful stakeholder feedback is already underway.</p> <p>Responsible Officer: Craig Price, Acting AD Audit & Risk Management.</p> <p>Due Date: 31st October 2016.</p>

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
9	<p>PSIAS 2200 Engagement Planning</p> <p>The PSIAS require internal auditors to have regard to a number of matters when planning engagements. These requirements are discussed in team meetings and reinforced through team emails.</p> <p>The requirement to have regard to fraud is reflected in a standard sentence in BCC's Internal Audit Service's standard audit planning memorandum issued to auditees.</p> <p>Internal auditors are also required to have due regard to value for money in undertaking their work. Including a standard sentence to this effect in audit planning memorandum would serve as a useful reminder to internal audit staff and auditees of this responsibility.</p>	<p>The Head of Internal Audit should consider adding a standard sentence relating to internal auditors' responsibilities for value for money in BCC's Internal Audit Service's standard audit planning memorandum.</p>	<p>The current audit planning memorandum template states that <i>'Any recommendations which are identified during the audit to strengthen business processes, improve value for money and manage risk, will be reported to management.'</i>, however, we will include an additional sentence within the 'Audit Methodology & Scope' section relating to internal auditors' responsibilities in relation to value for money.</p> <p>Responsible Officer: Craig Price, Acting AD Audit & Risk Management.</p> <p>Due Date: 31st October 2016.</p>

5. Distribution and Context

- 5.1 This report has been issued to: Craig Price, Acting Assistant Director Audit and Risk Management & Jon Warlow, Strategic Director Finance & Legal.
- 5.2 Jon Warlow will determine who at BCC will receive the report, although we have been informed that it will be formally reported to the Audit Committee.
- 5.3 Bristol Audit Service staff involved in the review: Alison Mullis, Chief Internal Auditor & Phil Eames, Group Auditor.
- 5.4 The PSIAS require that external reviewers should possess a recognised professional qualification, have appropriate experience of internal audit within the public sector / local government, have detailed knowledge of leading practices in internal audit and have current and in-depth knowledge of the Definition, the Code of Ethics and the International Standards for Internal Audit. We can confirm that the staff who undertook the review were professionally qualified, experienced in public sector / local government internal audit work and knowledgeable regarding the PSIAS.
- 5.5 There was no conflict of interest in Bristol Audit Service performing this assessment in respect of BCC's Internal Audit Service; Bristol Audit Service is not part of, or under the control of BCC.
- 5.6 Bristol Audit Service would like to thank all BCC colleagues involved in the review for their co-operation and assistance.



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. (Public Sector Internal Audit Standards 2013)

Appendix A

SUMMARY OF RESPONSES TO A SURVEY OF A SAMPLE OF MAIN STAKEHOLDERS IN BCC'S INTERNAL AUDIT SERVICE'S WORK

QUESTION / STAKEHOLDER RESPONSE (THERE WERE 7 RESPONSES FROM A SAMPLE OF 17 STAKEHOLDERS)	FULLY AGREE	GENERALLY AGREE	PARTIALLY AGREE	DO NOT AGREE
Q1. I trust and value the advice of the Head of Internal Audit and the internal audit service.	4	1	2	-
Q2. I understand and fully support the work of internal audit.	1	5	1	-
Q3. The internal audit service is delivered with professionalism at all times.	4	3	-	-
Q4. The internal audit service responds quickly to changes within the organisation.	2	2	2	1
Q5. The internal audit service provides healthy and independent challenge to management, processes and procedures which results in improved service delivery.	3	3	1	-
Q6. The internal audit service is adept at communicating the results of its findings, building support and securing agreed outcomes.	3	2	2	-
Q7. The internal audit service ensures that recommendations made are commercial and practical in relation to the risks identified.	3	3	1	-
Q8. In devising the annual internal audit plan, the Head of Internal Audit seeks my views on key risk areas which would benefit from audit review.	6	1	-	-
Q9. Internal audit advice has a positive impact on the governance, risk and systems of internal control within the Council and enhances understanding of these areas across the Council.	4	2	1	-

Appendix B

Core Cities Chief Internal Auditor Group - External Assessment - Peer Review Terms of Reference

Purpose of the Paper

At the meeting of the Core Cities Chief Internal Auditor (CIA) group held on the 3rd September 2014 it was agreed that member authorities should begin to formalise the arrangements for their external assessments and develop a clear basis for the approach to undertaking the assessments. It was agreed that the external assessment process should be undertaken as a peer review whereby one authority would undertake a peer assessment of a different authority within the group. It was also agreed that reciprocal reviews would not be undertaken.

Background Information

Members of the peer group: Sheffield City Council, Leeds City Council, Liverpool City Council, Birmingham City Council, Nottingham City Council, Bristol City Council, Newcastle City Council, Manchester City Council and Glasgow City Council.

External Assessments: The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. The two possible approaches to external assessments outlined in the standard include either a full external assessment or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- Possess a recognised professional qualification
- Have appropriate experience of internal audit within the public sector / local government
- Have detailed knowledge of leading practices in internal audit
- Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Purpose of the Review

The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

Proposed Approach

Members of the Core Cities group have elected to adopt the internal self-assessment approach validated by an external reviewer. The key benefit to this approach is cost. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments and can undertake a full external quality assessment with an approximate cost of £15K (based on a quote obtained for the Internal Audit service at Sheffield City Council). They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes approx. 5 working days and costs approx. £11k.

There are financial savings to members of the Core Cities group by adopting the peer review approach outlined within this paper. In addition, the approach is in keeping with the promotion of collaborative working arrangements.

Each authority will determine an appropriate member of their team to conduct the external assessment, taking into account qualifications and relevant experience.

A standard template will be devised for the purposes of reporting conformance. A moderation process will be developed to ensure consistency in the severity of issues being reported.

Upon conclusion of the external assessment, the reviewer will offer a 'true and fair' judgement and it is proposed that each authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** to the PSIAS.

Independence and Objectivity

Prior to the assessments taking place all parties will agree the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should be disclosed. It should be acknowledged at the outset that all Core City Internal Audit services have some knowledge of each other.

The Assessment Process

Completion of the Checklist: Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment. It is essential that the basis of the assessment is documented.

Pre Assessment Phase (2 days):

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.
- Obtain;
 - relevant background information to gain an understanding of the service. This should include the Internal Audit Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives);
 - details of responsibilities, resources, structure and activities;
 - details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required;
 - the completed self-assessment and supporting evidence; and
 - Obtain evidence of how quality is maintained and performance is measured and reported.
- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.
- Evaluate all documentation supporting the self-assessment prior to the on-site visit.

Assessment Phase (on-site visit) (1day):

- Raise and resolve any queries arising from the review of the self-assessment.
- Examine a sample of audit engagements to verify compliance to the PSIAS and procedures.

- Interview key staff to confirm audit procedures and process.
- Undertake an exit meeting with the Head of Internal Audit.

Post Assessment Phase (1 day):

The review should conclude with a detailed report providing an evaluation of the team's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The report should highlight areas of partial conformance / non-conformance and include suggested actions for improvement, as appropriate.

Reporting Phase (1 day):

- Discussion of the draft report with the Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor.
- Head of Internal Audit / Sponsor to report outcomes to their Audit Committee, together with an action plan and proposed implementation date(s).

It is envisaged that the assessment process should take 5 days in total.

Proposed schedule

Liverpool review Manchester (50mins, direct)
 Manchester review Glasgow (already underway)
 Leeds review Sheffield (1hr, direct)
 Nottingham review Bristol (3hrs, 1 change)

Bristol review Birmingham (1.5hrs, direct)
 Glasgow review Liverpool (3.5 hrs, 1 train change)
 Sheffield review Nottingham (1hr, direct)
 Birmingham review Leeds (2hrs, direct)