

**Manchester City Council
Report for Information/Resolution**

Report to: Audit Committee – 27 September 2022

Subject: Review of Effectiveness of Internal Audit

Report of: Head of Internal Audit and Risk Management

Summary

The Council conducts an annual review of the effectiveness of its internal audit function as part of its governance assurance processes. This process is designed to provide assurance to the Deputy Chief Executive and City Treasurer, and the Audit Committee over the role, function and performance of the internal audit service.

Recommendations

Audit Committee is requested to:

- Consider the level of assurance provided by the review of effectiveness and progress on management improvement actions from the Quality Assurance Improvement Plan (QAIP) and planned actions for 2022/23 (Appendix One)
 - Review and confirm the Audit Committee Terms of Reference (Appendix Two).
 - Review and approve the Internal Audit Charter (Appendix Three).
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Wards Affected: ALL

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the City

None

Equality, Diversity, and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments

None

Manchester Strategy outcomes	Summary of how this report aligns to the OMS/Contribution to the Strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	An effective internal audit service is an integral part of the Council's governance arrangements. It helps to maintain and develop good governance and risk management and provides independent assurance over the effectiveness of the Council's systems of control. This contributes to being a well-run Council and indirectly to the achievement of organisational objectives and the Our Manchester Strategy.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue = None

Financial Consequences – Capital = None

Contact Officers:

Name: Carol Culley
Title: Deputy Chief Executive and City Treasurer
Tel: 0161 234 3506
E-mail: carol.culley@manchester.gov.uk

Name: Tom Powell
Title: Head of Audit and Risk Management
Tel: 0161 234 5273
E-mail: tom.powell@manchester.gov.uk

Name: Richard Thomas
Title: Deputy Head of Audit and Risk Management
Tel: 0161 455 1019
E-mail: richard.thomas@manchester.gov.uk

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

- Internal Audit assurance reports to Audit Committee
- Internal Audit Annual Opinion 2021/22 – April 2022

1.0 Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) apply to internal audit services within all public service organisations. They set out the ethics requirements and a range of professional and performance standards that should be expected from Internal Audit. Compliance with the standards should be assessed internally and subject to periodic, independent external quality assessment.
- 1.2. PSIAS requires that Internal Audit services set out their quality assurance arrangements in the form of a Quality Assurance Improvement Plan (QAIP) and define the role, responsibilities and authority of the service in the form of an Internal Audit Charter, which includes an explanation of the way in which the function will comply with the PSIAS. The monitoring of performance against the QAIP and adherence to the Charter must be assessed and reported to the Audit Committee on an annual basis.
- 1.3 Internal Audit have also reviewed the current Audit Committee terms of reference in line with good practice and examples from other local authorities. From this review there are no changes proposed other than the removal of a responsibility for approving the selection of external treasury management service providers as agreed previously by the Audit Committee.

2.0 Background & Context

- 2.1 The PSIAS sets out the requirement for a QAIP:
“The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity which must include both internal and external assessments.”
- 2.2 The Audit Charter defines the purpose, authority, scope and responsibility of the Internal Audit service and is consistent with the mandatory requirements of the PSIAS and the supporting Local Authority Guidance Note (LAGN) 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.
- 2.3 It is the responsibility of the Head of Internal Audit and Risk Management, as Chief Audit Executive, to ensure that the Internal Audit Charter is reviewed each year and ensure that it remains relevant to both the Internal Audit Service and the wider organisation.
- 2.4 The Internal Audit Strategy outlines how internal audit activities will be undertaken within the Council and defines the key principles and approach to be used. It supports the development of the annual audit opinion which informs the Council’s Annual Governance Statement. The Strategy highlights areas for continuous development and focus for the audit service that include:
 - utilising collaborative working opportunities with other assurance providers such as external auditors, external assessment teams and regulatory compliance teams.

- adaptation of 'scrum and sprint' project management styles to the planning and delivery of audit work; to maintain focus on timely completion and the flexing of scope during audits to address key risks.
- reporting early where there is a good level of confidence that controls are operating effectively or conversely where it evident that the design or operation of controls are inadequate.
- focused engagement in organisational projects / programmes with clarity as to the nature of the audit role (delivery, advisory or assurance).
- use of technology, including the opportunities presented by the Microsoft 365 platform, in the planning, delivery and reporting of audit work, and
- reporting to management and other stakeholders including Audit Committee, focusing on what matters most and with clear recommendations for action.

2.5 As part of this review we have consulted with other core cities and their audit functions to ensure our framework and policies are comparable, these include Birmingham, Leeds, Cardiff and Glasgow. We have also checked CIPFA to ensure we comply with the latest guidelines and associated best practice. The last published guidance was issued in 2018 and is due to be refreshed by CIPFA in September 2022, alongside guidance issued by the Institute of Internal Auditors (IIA).

2.6 One of the key documents that is being considered in the ongoing development of the audit function is CIPFA's Untapped Potential report that was published in May 2022 and can be located on the CIPFA website. This describes ways in which internal audit functions can maximise their impact for example by demonstrating:

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

2.7 This report is being used to review and refresh the audit approach in Manchester.

3 Audit Planning and Priorities

- 3.1 The audit plan for 2022/23 was presented to Audit Committee on a timely basis in April 2022. It is based on PSIAS and the Internal Audit Strategy. It was developed in a time of significant challenge and change as the Council continued to respond and recover from the Covid19 pandemic. It reflected the ongoing need for work to reduce fraud and error across a range of business grants and additional central Government funded schemes linked to Covid response and recovery as well as the cost of living crisis.
- 3.2 The plan remains necessarily flexible to respond to new risks or demands. For example additional grant certification requirements were announced by the Department for Business, Energy, and Industrial Strategy (BEIS) and this work has been added to the audit plan with outcomes reported to Committee via our quarterly progress updates. We estimate this will continue until December 2022. A contingency was made in the annual plan and used to respond to some of these additional requirements.
- 3.3 Total resources to be allocated to the direct management and delivery of Council audit and counter fraud work for 2022/23 is c1,850 days. This is comparable to the 1,900 days planned for 2021/22 and reflects a small reduction in direct audit time to enable all staff to engage in consultation on the new service design and complete important mandatory training. The net figure is calculated as the days available for audit work, when allowances are deducted for these non-audit activities including training and professional development, staff meetings, service development and engagement in networks and general working groups. The gross figure of available staff days is c2,300 days, equating to a productivity ratio of approximately 80% which is comparable to audit functions across the Core Cities.
- 3.4 A service review is ongoing with additional resource secured to support the team on an interim basis. The completion of the review will accelerate in September as the approval of all new roles and responsibilities is completed and consultation with Trades Unions and with staff can commence. This remains the principal area of management focus to support audit service development in 2022.
- 3.5 The audit plan shows links to the Council's Corporate Plan priorities and the Corporate Risk Register. It provides a very high-level summary of the likely focus of audit and assurance work that will be developed further as part of detailed assignment planning in each of these areas. It provides a breadth of coverage across a range of activities, to support a comprehensive annual audit opinion.

- 3.6 In line with the Internal Audit Strategy, reports to Audit Committee reference and reflect the outcomes of other sources of assurance such as monitoring of the Peer Review Action Plan, outcome of the OFSTED inspection and the findings of key reports to other Committees. The Service will consider and report on the outcome of key processes such as budget setting, the work of external audit and the production of the annual governance statement. This holistic approach to assurance will inform in-year and annual audit reporting to Directorate Leadership Teams, SMT and Audit Committee.

4 Quality Assurance Improvement Plan

- 4.1 The QAIP is informed by a range of sources that include feedback from within the team, clients; Service Technical Improvement Group and External Quality Assessments as well as from assessment by audit management including comparisons with other organisations and good practice guidance. Consistent with the PSIAS, the Audit Committee should consider the outcomes of the QAIP, and actions planned to address for areas for development. This self-assessment, development plan and status of improvement actions is attached at appendix 1. In summary actions are underway or planned to strengthen the following areas:
- Refining quarterly assurance reports for Directors and senior managers to ensure they provide impact and insight, by November 2022.
 - Completion of service review and recruitment to vacancies by December 2022.
 - Preparing for the external quality assessment (EQA) and agreeing an action plan to address any areas for improvement by January 2023
 - Development of meaningful performance and impact measures for the service that support continuous improvement. Options to be explored as part of the EQA by January 2023.
 - Ensuring the audit strategy confirms how assurance over risk management arrangements can be completed and audit independence maintained. Options to be explored as part of the EQA by January 2023.

5 Resources

- 5.1 The audit team have a deep and diverse mix of sector experience and qualifications to support audit, assurance and counter fraud activity. Our skillset includes two Qualified Internal Audit Leaders (QIAL), four qualified accountants (CCAB), and eight qualified internal auditors (MIIA or CIIA). One auditor is a Certified Information System Auditor (CISA) and one is a certified Information Security professional via the Institute for Information Security Practitioners (IISP). We have two trainee auditors who came into the service as secondees. Both have done basic audit training and intend starting professional studies.
- 5.2 For Counter Fraud work, four members of the team are additionally qualified in investigative techniques (ACFS and ACFT) and one has had Government Intelligence Analysis training. The team also have three auditors who are

proficient in using data analytics and data interrogation software (IDEA).

- 5.3 We maintain a skills matrix based on CIPFA best practice described in *The Excellent Internal Auditor: A Good Practice Guide to Skills and Competencies*. It includes mandated training courses (cyber security / data confident), and managerial training and leadership development. It also records any specialist training such as project management, use of bank analysis software, and auditing capital projects.
- 5.4 We continue to supplement our in-house IT audit service provision with support from Salford City Council IT Audit Services. This arrangement affords a balance between local Manchester knowledge and skills; with the ability to access more specialist and technical skills that we would struggle to sustain internally.

6 Recommendations

6.1 Audit Committee is requested to:

- Consider the level of assurance provided by the review of effectiveness and progress on management improvement actions from the Quality Assurance Improvement Plan (QAIP) and planned actions for 2022/23 (Appendix One)
- Review and confirm the Audit Committee Terms of Reference (Appendix Two).
- Review and approve the Internal Audit Charter (Appendix Three)

Appendix 1 - QAIP

Background

The Public Sector Internal Audit Standards (PSIAS) revised 2017 state that the Chief Audit Executive (CAE) must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. For Manchester City Council the CAE role is discharged by the Head of Audit and Risk Management (HARM).

The QAIP is designed to ensure that the Council's internal audit service performs its work in accordance with its Charter in conformance with PSIAS and the Code of Ethics. It is also used to assess the efficiency and effectiveness of the internal audit service.

The key elements of the QAIP are to confirm:

- Audit activities are planned; resourced and delivered.
- Mechanisms ensure compliance with the PSIAS.
- Internal Audit adds value and provide quality outcomes in its work, supporting improvement to the Council's business operations
- Regular internal assessment of performance and quality is undertaken.
- An external assessment of performance is commissioned at least every five years.
- Reporting arrangements for the QAIP and service improvement plans.
- How non-conformances with requirements should be addressed.

The Internal Audit service has several assurance processes in place to enable effective development and delivery of plans and identify areas for continuous improvement. The core principles for service delivery and improvement are also adopted for Counter Fraud activities though some of the specific operational requirements are different.

Quality Assurance Framework

This is the framework under which the Internal Audit Service carries out regular assessment of its conformance with PSIAS standards as required in the Quality Assurance Improvement Plan. Outcomes of assessments are reported to Audit Committee and consolidated in the Annual Review of the Effectiveness of Internal Audit. Details are provided in relevant templates for audit activities, reporting and post audit review.

Activity	Frequency	Role	Purpose
<p>Audit Activities are planned, monitored and delivered – via Annual Audit Plan and monitoring reviews</p>	<p>Plan - Annually</p> <p>Delivery - Quarterly Progress reports to Strategic Management Team (SMT) and Audit Committee (AC), with updates to Directorate Leadership Teams (DLTs).</p> <p>Individual Audits monitored against assignment plans every fortnight, through audit management meetings.</p>	<p>Auditors, Leads, Deputy Head of Audit and Risk Management (DHARM), with HARM</p> <p>SMT, S151 and Audit Committee input and approval</p> <p>Audit leads, DHARM, HARM, SMT, S151 and Audit Committee scrutiny, review and challenge.</p> <p>Auditors, Lead Auditors, DHARM and HARM</p> <p>Action 1 - KPI Action 3 – Audit resource / structure</p>	<p>Risk based audit assignment planning undertaken and agreed for coming year and work assigned accordingly. Plan is flexible to reflect changes to organisational risk.</p> <p>Confirm risk-based assurance and consultancy plan has been authorised and is resourced accordingly. Confirm audit plan is being delivered and reported in line with expectations and priorities set for the coming period.</p> <p>Performance management of Lead Auditors and audit teams.</p>
<p>Audit activities are managed and delivered – via regular management supervisions, quality assurance and sample check via audit checklist.</p>	<p>Ongoing for all assignments</p> <p>Monthly sample checks carried out for quality assurance.</p> <p>Quality assurance of draft and final reports by DHARM and HARM, if limited or no assurance opinion.</p>	<p>Auditor and Lead Auditor.</p> <p>DHARM with summary reporting to HARM.</p> <p>Action 1 - KPI</p>	<p>Ensures that activities are managed in line with PSIAS and audit manual.</p> <p>Remedial actions to be determined where necessary to address areas of concern.</p> <p>To assist with effective client engagement and interaction / co-operation with IA.</p>

Activity	Frequency	Role	Purpose
<p>Audit Impact – via recommendation Monitoring schedule</p> <p>Exploring options for greater use of data analytics.</p>	<p>At least quarterly with DMT, Director engagement and through contact with recommendation owners.</p> <p>Quarterly position statements to AC with analysis of age profile and summary of recommendations implemented.</p> <p>Working with external providers and inhouse teams to increase capability / use of data analytics.</p>	<p>Lead Auditors. Escalation to DHARM and HARM if necessary.</p> <p>S151, Strategic Directors and Executive Member.</p> <p>Attendance at Audit Committee</p> <p>Action 4 – DMT updates</p>	<p>All high risk critical, major and significant recommendations monitored to evaluate progress and implementation. Follow up activities carried out in line with risk-based audit plans. Exceptions reported to SMT and Audit Committee.</p> <p>Recommendations will only be '<i>referred back</i>' to the business following AC approval (18 months past the due date)</p> <p>For 2022/23 to include appropriate recommendations from investigation work where these link to required improvements in internal control.</p> <p>For 2022/23 to include appropriate recommendations from school audits.</p>
<p>IA Self-Assessment against PSIAS and Service Improvement Plans – via annual service self-assessment against the PSIAS standards</p>	<p>Annually</p>	<p>DHARM and HARM Approved by S151</p> <p>Review by Audit Committee.</p> <p>Action 3 – Audit resource / structure</p>	<p>To establish areas of strength and for improvement.</p> <p>Reported to the Audit Committee.</p>

Activity	Frequency	Role	Purpose
External Quality Assessment Against PSIAS – via external review	Every five years – Leeds City Council will perform a peer review of Manchester Internal Audit from October 2022.	External sourced HARM, S151 and AC. Action 2 – RM effectiveness	To confirm the IA conformance with PSIAS – any actions resulting from the peer review will be allocated and monitored via the QAIP. Objective review of the effectiveness of risk management processes.

Development Actions

The key service development actions in support of the QAIP and status are follows:

Area for Development (source)	Improvement Action	Status
1. Performance measures for the service could be improved (<i>Self-Assessment and EQA</i>)	<p>Additional KPI to be considered in addition to those relating to timeliness of reviews – meeting target dates agreed in the terms of reference.</p> <p>These will be agreed through the Technical Improvement Group and in consultation with Lead Auditors.</p> <p>KPI monitoring statistics will form part of progress reports to the Audit Committee.</p>	To be completed by January 2023.
2. A formal audit of risk management arrangements has not been completed in the last three years (EQA)	The peer review of PSIAS conformity will cover this aspect and any specific actions therefrom will be implemented.	Report from EQA by end January 2023.
3. Service Structure Review	Carry out a review and implementation of new service structure for the Internal Audit Service.	To be finalised December 2022
4. Refresh quarterly assurance update report for senior managers at Directorate Leadership Teams (DLTs). (<i>self-assessment</i>)	A pilot format has been tested using reports to Corporate Services SLT that includes updates on Health and Safety issues and key risks. This will now be formally rolled out across other Directorates.	To be complete by November 2022.

Appendix 2 – Audit Committee Terms of Reference

Purpose

The main purpose of the Committee is to obtain assurance over the Council's corporate governance and risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.

Governance

Review the Council's corporate governance arrangements including consideration of the Code of Corporate Governance.

Review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, considering internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Review the governance and assurance arrangements for significant partnerships or collaborations, including the Register of Significant Partnerships

To consider the effectiveness of the Council's risk management arrangements including reviewing the Risk Management Strategy and Policy, and the Corporate Risk Register.

Review the assessment of fraud risks and potential harm to the Council from fraud and corruption including oversight of key anti-fraud policies and monitoring of the counter-fraud strategy.

To make recommendations to the Chief Finance Officer and Monitoring Officer in respect of Part 5 of the Council's Constitution (Financial Regulations).

Financial Reporting

Review and approval of the annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts and monitor the Council's response to individual issues of concern identified.

Approve the Council's Statement of Accounts and associated governance and accounting policy documents in accordance with the Accounts and Audit Regulations 2015.

External Audit

Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA).

Consider the external auditor's annual audit plan, annual audit letter, relevant reports and the report to those charged with governance.

Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Internal Audit

Oversee and provide assurance to the Council on the provision of an effective internal audit service and the main issues arising from Internal Audit work. Undertake the duties of the Board as set out in Public Sector Internal Audit Standards (PSIAS) as follows:

- Approve the Internal Audit Charter.
- Approve the risk-based internal audit plan, including internal audit's resource requirements, including any significant changes, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- Receive confirmation from the Head of Audit and Risk Management regarding the organisational independence of the internal audit activity and make appropriate enquiries of management and the Head of Audit and Risk Management to determine whether there are inappropriate scope or resource limitations.
- Provide free and unfettered access to the Audit Committee Chair for the Head of Audit and Risk Management, including the opportunity for a private meeting with the Committee.

- Consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Audit and Risk Management. To approve and periodically review safeguards to limit such impairments.
- Receive the results of the Quality Assurance and Improvement Plan annually and the external quality assessment of internal audit that takes place at least once every five years.
- Receive communications from the Head of Audit and Risk Management on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. To include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the Committee.
- Consider the Head of Audit and Risk Management's annual opinion and report.
- Seek assurance on the adequacy of management response to internal audit advice, findings and recommendations in the form of implementation of agreed action plans

Treasury Management

To monitor the performance of the Treasury Management function including:

- approval of / amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities; and
- receiving and reviewing regular monitoring reports and acting on recommendations

It is proposed to remove the following "approving the selection of external service providers and agreeing terms of appointment"

APPENDIX 3 - Internal Audit Charter 2022

1. Introduction

This charter establishes the framework within which Manchester City Council's Internal Audit Service operates to best serve the Council and to meet its professional obligations under applicable professional standards.

The charter defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

It will be subject to periodic review by the Head of Audit and Risk Management (as the Chief Audit Executive) and presented to the Council's Senior Management and Audit Committee for approval.

Where the Internal Audit Service provides the internal audit function for other organisations external to the Council the purpose, authority and responsibility of internal audit activity for those organisations is set out in separate charters for those organisations.

2. Relevant regulations and interpretation

The requirement for an internal audit function in local government is set out in the Accounts and Audit Regulations 2015 ('the Regulations'). "Internal audit: A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." Regulation 5. (1) Accounts and Audit Regulations 2015.

The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published Public Sector Internal Audit Standards ('PSIAS'), which encompass the Mission of Internal Audit and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within PSIAS by additional public sector interpretation and guidance. CIPFA has also published a Local Government Advisory Note setting out sector-specific requirements for local government within the United Kingdom.

The Council's Internal Audit service operates in accordance with this mandatory definition, code, standards and advice. Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". In its Statement on the Role of the Chief Financial Officer in Local Government CIPFA has defined 'proper administration'

as including compliance with the statutory requirements for accounting and internal audit. It also requires the director of financial resources to ensure an effective internal audit function is resourced and maintained.

3. Definitions

Both the Global Institute of Internal Auditors and PSIAS set out the following definition of internal auditing:

"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."

**Global Institute of Internal Auditors, and
Public Sector Internal Audit Standards, 2017**

The Global Institute of Internal Auditors and PSIAS also refer to the 'board' and 'senior management' and PSIAS recognise that these terms need to be interpreted in the context of the Council's own governance arrangements.

PSIAS define the board as:

"The highest level of governing body charged with the responsibility to direct and/ or oversee the activities and management of the organisation. [...] 'Board' may refer to an audit committee to which the governing body has delegated certain functions."

Public Sector Internal Audit Standards, 2017

Within Manchester City Council the board is defined as the Audit Committee and senior management is defined as the Council's Senior Management Team ("SMT").

4. Responsibilities

The Regulations set out that the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk. The scope of internal audit's work includes:

- Systems, processes, policies, plans and procedures.
- Use and safeguarding of resources and assets, including data.
- Governance and risk management processes.
- Commissioning and procurement.
- Projects and programmes; and
- Counter Fraud, including investigation of allegations of fraud and corruption.

It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. PSIAS make clear that the provision of this assurance is internal audit's primary role and that this requires the Head of Audit and Risk Management to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.

This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation. The scope of internal audit's work therefore encompasses all Council functions and services and all its activities.

The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However, the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control. They will also contribute to the overall assurance opinion.

Accountability for responses to Internal Audit advice and recommendations for action lies with senior management who either accept and implement advice or accept the risks associated with inaction. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations later.

The Head of Audit and Risk Management will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with PSIAS and the results of the quality assurance and improvement programme (QAIP).

The Internal Audit Service's responsibilities are set out in PSIAS, and these are supported by detailed operational policies and procedures that are regularly reviewed and updated as necessary.

5. Independence and objectivity

The PSIAS define independence as “freedom from conditions that threaten the ability of the Internal Audit Service to carry out its responsibilities in an unbiased manner”. To assist Internal Audit to carry out the role and constructively challenge senior managers of the Council, the Head of Audit and Risk Management holds a sufficiently senior position.

The Internal Audit Service remains independent of the Council's other functions and, apart from its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement in all their work, whether on audit work or investigations. The Internal Audit Service's work programme and priorities are determined in consultation with 'management' and 'the Board' but remain a decision for the Head of Audit and Risk Management. The Head of Audit and Risk Management has direct access to and freedom to report in his own name and without fear or favour. He has opportunity to meet with the Chair of the Audit Committee at any time. The independence of the Head of Audit and Risk Management is further safeguarded by ensuring that his remuneration and performance assessment are not inappropriately influenced by those subject to audit.

All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate. The Head of Audit and Risk Management makes an annual declaration that the internal audit function is operationally independent.

6. Reporting lines and relationships

The Head of Audit and Risk Management reports the performance and outcomes of audit work to 'management' and 'the board' and reports organisationally to the Deputy Chief Executive and City Treasurer.

The Head of Audit and Risk Management has access to all 'management' including the Monitoring Officer and Chief Executive. The Head of Audit and Risk Management has regular access to the chair of the Audit Committee and reports to their meetings as set out in the Committee's Terms of Reference.

SMT and the Audit Committee are responsible for approving the annual audit plan.

The Head of Audit and Risk Management, the Internal Audit Service as a whole, and the Council adhere to the requirements of CIPFA's Statement on the Role of the Head of Internal Audit.

The Internal Audit Service and the external auditor liaise on the planning and outcomes of respective audit work to share assurance opinions and avoid the duplication of work.

7. Access to information

The Internal Audit Service has the right of unrestricted and direct access to the Council's records (however held), assets, premises and officers. When entering partnership arrangements with external organisations, the Council ensures that the same rights of audit access

apply to partners' records, assets, premises and officers. The Internal Audit service has the authority to obtain all such information and explanations as it considers necessary to fulfil its responsibilities.

Internal auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the Council's legitimate and ethical objectives.

8. Internal Audit Resources

The Council has taken the strategic decision to provide its internal audit service largely in-house and is committed to providing a service that meets the best quality standards. The Head of Audit and Risk Management and Council has decided that, to meet the requirement that assignments are performed with proficiency and due professional care, it will obtain additional support where specialist knowledge is required. All such work remains under the direction and authority of the Head of Audit and Risk Management.

The Deputy Chief Executive and City Treasurer ensures that internal audit resources are sufficient to meet its responsibilities and achieve its objectives. If the Head of Audit and Risk Management or the Audit Committee considers that the level of audit resources in any way limits the scope of internal audit or prejudices the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they will advise the Council accordingly.

Nonetheless, the Internal Audit Service has finite resources, and its workforce is therefore deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by the Council.

The Council performance and development process is applicable to all staff within the Internal Audit Service, which supports continuous staff performance appraisal and development.

9. Quality Assurance and Improvement

The Head of Audit and Risk Management operates a quality assurance and improvement programme (QAIP) that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with PSIAS. This includes both internal and external assessments.

The results of the quality assurance and improvement programme including any areas of non-conformance with PSIAS are reported annually to SMT and the Audit Committee.

10. Non-audit work: Investigations and counter-fraud services

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

The Internal Audit Service manages the Council's whistle-blowing arrangements, including provision of a helpline and, where appropriate investigates instances of suspected or actual fraud, corruption or impropriety. It also facilitates participation in the National Fraud Initiative, which matches data from Council information systems with information held by other bodies to identify potentially fraudulent activity. The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

The Head of Audit and Risk Management should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for his opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

11. Non-audit Work: Risk, Insurance and Health and Safety

The Head of Audit and Risk Management is responsible for the leadership and management of the Council's Risk and Resilience, Insurance and Claims, and Health and Safety Services. To avoid actual, potential or perceived conflicts of interest, planned audit activity in these areas is led by the Deputy Head of Audit and Risk Management and reported to the Deputy Chief Executive and City Treasurer, SMT and Audit Committee without any oversight or influence by the Head of Audit and Risk Management.