

Internal Audit
Annual Plan
2015-2016

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Internal Audit Annual Plan 2015-16

1. Introduction

- 1.1 The purpose of this report is to obtain approval for the internal audit and corporate fraud plan of work for 2015/16. This plan principally covers internal control review and anti-fraud and corruption work. Best practice (i.e. the CIPFA Code of Practice for Internal Audit in Local Government) recommends that the audit plan is approved by both the Finance and Audit Committee and senior management.
- 1.2 In terms of reporting lines for the service the Chief Internal Auditor reports to the Director of Resources on operational issues and the Chief Executive and Finance and Audit Committee as appropriate on strategic issues.
- 1.3 The audit plan is based on the service structure which includes six full time equivalent operational audit staff.
- 1.4 The service will report summary findings of work undertaken on a quarterly basis to the Finance and Audit Committee, Corporate Leadership Team and Resources Directorate Management Team. As in previous years, the Finance and Audit Committee can request more detailed information on any work undertaken. The annual opinion of the Chief Internal Auditor will contribute to the Council's Annual Governance Statement.
- 1.5 Professional standards require the internal audit charter and anti-fraud and corruption strategies to be periodically reviewed and reapproved by the organisation. In the current times of significant organisational change it is considered that annual review of these documents is appropriate and they are both appended to this plan for members' consideration.

2. Overall balance of coverage

- 2.1 The work of the team can be broken down into four main services to the Council:
- Reviews of Council systems and processes on a risk assessed basis to ensure controls are adequate, coupled with a programme of follow-up work to ensure significant findings are implemented;
 - Compliance testing to ensure:
 - Significant financial systems remain 'fit for purpose'
 - Adequate financial procedures in schools
 - Appropriate controls over capital contracts and larger revenue contracts
 - Effective procurement activity, including non-contracted spend
 - Provision of consultancy and advice to service management on request regarding aspects of internal control;
 - Fraud investigation, where appropriate in conjunction with the Corporate Fraud Officer.

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- 2.2 Internal audit continues to work closely with the Council's external auditors, KPMG. Regular liaison meetings are held to avoid duplication and exchange key findings on areas of mutual concern.

3. Risk-based reviews

- 3.1 Given available resources and the balance of risk and compliance audit work we anticipate undertaking 20 reviews arising from our risk assessment. Within each review we will continue to include core areas of internal control such as business planning, performance monitoring and security of assets. Segregation of duties in key processes will remain an important focus given the current economic climate and issues identified from past work.
- 3.2 Planned audit work has been discussed with the Chief Executive, Senior Management and the Director of Resources. The plan has also been discussed by the Corporate Leadership Team on the 16th February 2015.
- 3.3 The demand for audit work in 2015/2016 has exceeded the available resource and therefore a decision has been taken to focus on the areas with the highest perceived risk.
- 3.4 The plan has been compared to the financial risk assessment included in the Council's budget to help ensure that key areas of financial risk are aligned to the audit plan.
- 3.5 Changes to the programme of risk based work will only be made following discussion with the Council's Section 151 officer. Any changes will be made known to the Finance and Audit Committee through the quarterly report of the Chief Internal Auditor.
- 3.6 A list of risk based reviews which will be covered in 2015/2016 can be found in **Appendix A**.

4. Compliance testing

- 4.1 Compliance testing accounts for approximately fifty percent of the allocated audit resource. As set out in the 2014/17 audit strategy, the overall approach remains, to complement risk based audit work with a robust set of compliance testing. The compliance element of the audit programme can be split into the following sub-headings, further details as to the areas of coverage can be found in **Appendix A** of this report.

Financial Control Assurance Testing

- 4.2 This involves the testing of core financial transactions to ensure that all major financial systems are subject to an adequate level of audit review work annually. Computer audit techniques have been extended and manual sample testing reduced to help ensure the widest range of coverage focused on transactions which warrant further investigation.
- 4.3 The results from the Financial Control Assurance Testing are reported each quarter to the relevant Head of Service with a full copy of the results provided to the Director of Resources. These reports offer assurance throughout the year that key financial controls are working effectively and also identify any control weaknesses for follow-up and resolution.

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Procurement and Contract Audit

- 4.4 A number of reviews will be undertaken to ensure that adequate procurement arrangements are in place and that contracts are being effectively managed. This year resource has been set aside for seven reviews of this nature.

Schools Audit

- 4.5 Provision has been made in the plan for schools audit work. In recent years this has comprised ensuring that schools have met the requirements of the national Financial Management Standard in Schools, on the basis that this covered all the expected key controls over school financial procedures and governance. The Department for Education has launched the Schools Financial Value Standard, which no longer includes a requirement for an external assessment. However, there is still a requirement for maintained schools to be subject to an audit programme.
- 4.6 It is intended that each maintained school will be subject to an audit of its core financial controls every three years, or more frequently if necessary. A risk assessment will be undertaken to assess which schools will be subject to audit in 2015/2016 and provision has been made in the plan for seven schools to be visited.
- 4.7 A service offer that offers support in completing the School's Financial Value Standard self-assessment has also been distributed to schools. Work will be programmed in as requested and will form a source of income for the team.

Establishment Visits

- 4.8 A small programme of establishment visits will take place to ensure that financial controls are operating effectively. For 2015/2016 the focus will be on the leisure centres and two adult social care services.

Grants and Service Level Agreements

- 4.9 This year's audit programme will also include a review of ward budgets and various grant certifications which require sign-off by the Chief Internal Auditor.

Carbon Reduction commitment

- 4.10 The Carbon Reduction Commitment (CRC) scheme is a mandatory energy efficiency scheme which uses an emissions trading mechanism. The CRC scheme was introduced in April 2010 and involves large public and private sector organisations in the UK. Non-compliance with the scheme will expose the participating organisations to potentially significant financial penalties. To mitigate against this, organisations must develop reliable systems for energy data collection that provide timely, complete and accurate information.
- 4.11 A requirement of the CRC scheme is that each organisation implements a system for regular internal audits, and copies of the audit reports need to be included in the CRC evidence packs.
- 4.12 The first CRC audit at Blackpool Council took place in 2011/2012 and it is intended that a programme of annual audits will be implemented going forward. We have also agreed with Blackpool, Wyre and Fylde Hospitals Trust that we will complete a similar review of their annual CRC submission and this will provide an additional source of income to the team.

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5. Counter-fraud and corruption work

- 5.1 The counter fraud audit programme is again based on the guidance in the CIPFA 'Red Book' on fraud prevention and the Audit Commission's 'Protecting the Public Purse' document to ensure that it takes account of emerging threats and focuses on priority fraud risks.
- 5.2 As well as work by audit staff, vigilance and a commitment to tackling fraud by frontline staff remains a vital safeguard in preventing and detecting fraud.

6. Consultancy and advice

- 6.1 The provision of advice to management on matters of risk and control remains an important aspect of the internal audit service. As in prior years a proportion of audit management time has been set aside for ad hoc consultancy work at management request.

7. External work

- 7.1 The internal audit team also undertakes work for a range of external clients. These include Blackpool Coastal Housing where a separate internal audit plan is in place and audit findings are reported to their Finance, Audit and Corporate Services Committee.
- 7.2 In addition, the internal audit team carries out reviews at a number of the leisure assets owned by the Council. An annual audit is undertaken of the Sandcastle Waterpark with the findings reported to the Blackpool Operating Company Board. An audit approach has also been developed with Merlin Entertainment to facilitate an annual review of the controls in place at Blackpool Tower, the Dungeons and Madame Tussauds.
- 7.3 The internal audit team also carries out an annual audit of the financial controls in place at the Winter Gardens.
- 7.4 A service offer has also been provided to schools to provide support to them in completing the Schools Financial Value Standard. Whilst there is no requirement that schools are externally assessed against their self-assessment the internal audit team recognise that schools may welcome support. A service offer to schools who have obtained academy status has also been developed to support academies with the provision of an internal audit service.
- 7.5 Blackpool Council provides a number of shared services with Fylde Borough Council, particularly in relation to the provision of revenues and benefits services. These key financial systems are subject to regular audit review and therefore the Council's Internal Audit Team undertake the required work jointly with Fylde Borough Council's audit team to reduce the audit burden on the service .

8. Monitoring performance

- 8.1 As head of the Council's independent assurance service, the Chief Internal Auditor will issue quarterly reports to both the Section 151 Officer and the Finance and Audit Committee, to enable any areas of concern to be acted upon as necessary. The Chief Internal Auditor's opinion on the effectiveness of the system of internal control for the 2014/15 year will be included in the fourth quarter report in May 2015.

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8.2 As with all Council services, performance indicators will be used for monitoring and managing the team. Wherever possible, performance indicators are intended to remain the same year on year to enable trends to be identified. The five PIs in place are:

- Audit plan completed;
- Reviews delivered to deadline;
- Reviews delivered to time budget;
- Customer satisfaction;
- Compliance of audit reviews with department quality standards.

9. Recommendation

9.1 Members are asked to approve the internal audit plan for 2015/16, including the plan for counter-fraud and corruption work.

9.2 Members are asked to approve the Internal Audit Charter.

9.3 Members are asked to approve the revised anti-fraud and corruption statement.

Tracy Greenhalgh CMIIA, MSc
Chief Internal Auditor
3rd February 2015

Appendix A - Planned Risk Based and Compliance Reviews

Directorate	Service / Topic	Provisional Timings	Allocated Days
Risk Based Reviews			
Community and Environment	Highways	Quarter 4	20
Community and Environment	Physical Activities Programmes	Quarter 1	20
Corporate	Implementation of High Risk Savings*	Quarter 3	20
Deputy Chief Executive	Compliance with Corporate Procedures	Quarter 3	20
Deputy Chief Executive	Ability to Transform	Quarter 3	20
Deputy Chief Executive	Payroll* (<i>potentially joint with KPMG</i>)	Quarter 2	20
Deputy Chief Executive	Information Management and Data Breaches	Quarter 4	20
Governance and Regulatory	Governance Arrangements of Boards and Panels	Quarter 2	20
Governance and Regulatory	Licensing Service	Quarter 1	20
People	Better Start Project*	Quarter 2	20
People	Care Act Implementation: Deferred Payments	Quarter 3	20
People	Identification of Carers, Care and Support Plans	Quarter 4	20
People	Framework-I Development	Quarter 3	20
People	Leaving Care Service	Quarter 4	20
People	Early Education Free Entitlement	Quarter 4	20
Places	Housing Regeneration Company*	Quarter 2	20
Places	Car Parking Income	Quarter 2	20
Places	CCTV	Quarter 1	20
Public Health	Continuing Professional Development	Quarter 1	20
Resources	Housing Benefit Risk Based Verification	Quarter 3	20
Contract / Procurement Audits			
Community and Environment	Street Lighting PFI	Quarter 3	15
Community and Environment	Anchorsholme Coastal Defence Work	Quarter 1	15
Community and Environment	Waste PFI*	Quarter 4	15
Corporate	Contract and Performance of Providers	Quarter 1	20
Places	Coastal Community Fund (Illuminations)*	Quarter 3	15
Public Health	Commissioning Arrangements	Quarter 4	15
Resources	Banking Contract Post Implementation Review	Quarter 2	15
Compliance Testing			
Community and Environment	Leisure Centres Establishment Visit	Quarter 2	20
Corporate	Financial Control Assurance Testing	Quarterly	150
Corporate	Grant Certifications	As required	20
Governance and Regulatory	Ward Budgets	Quarter 4	10
Governance and Regulatory	Executive Decisions	Quarter 3	15
People	St Teresa's RC Primary School	TBC	2
People	St Bernadette's RC Primary School	TBC	2
People	Baines Endowed Primary School	TBC	2

People	Boundary Primary School	TBC	2
People	Mereside Primary School	TBC	2
People	Kincraig Primary School	TBC	2
People	Layton Primary School	TBC	2
People	Troubled Families Compliance Testing	Quarterly	20
People	Langdale Day Centre Establishment Visit	Quarter 1	5
People	Coopers Way Establishment Visit	Quarter 1	5
Place	Positive Steps into Work	Quarter 1 and Quarter 4	20
Resources	Carbon Reduction Commitment	Quarter 2	5
Total			794

* - priority reviews

Appendix B – Proactive anti-fraud workplan 2015/16

The proactive fraud anti-fraud workplan includes the following actions:

Internal Audit

- 1) Undertake Financial Control Assurance Testing (FCAT) compliance audit work using IDEA software to deliver maximum assurance that core systems are operating as described.
- 2) Continue to promote register of interests through internal audit work to reduce the likelihood of undeclared conflicts of interest.

Corporate Fraud

- 1) Develop the use of IDEA software to better target proactive resources for fraud and error testing on a quarterly basis.
- 2) Attend the Greater Manchester Fraud Group, half yearly meetings to share intelligence, best practice and develop training opportunities and promote work on joint initiatives.
- 3) Develop further ICT solutions to assist in the identification of fraud including the introduction of the Corporate Fraud System and review other options including Investigator On-Line.
- 4) Develop the resources available on the Hub such as updates, warnings of emerging fraud risks, case summaries on proven cases and fraud prevention information.
- 5) Promote the Fraud Awareness I-Pool course and encourage all managers to complete the training.
- 6) Pursue civil, disciplinary and/or criminal sanctions, picked up during investigation process.
- 7) Identify and recover all losses identified during investigation process and recovery action sought through POCA, insurance, payroll and legal means.
- 8) Manage the Council's National Fraud Initiative (NFI) response and ensure that as a minimum all high risk / recommended matches are reviewed.
- 9) Focus on key areas of potential fraud including Council Tax Reduction Scheme / Single Person Discount and Insurance fraud.
- 10) Promote the Council's arrangements on prevention of money laundering, the Bribery Act and whistleblowing, in the latter case in conjunction with Human Resources.
- 11) Update the Council's Prosecution Policy to reflect the transfer of the responsibility to investigate welfare benefit fraud to the Department for Work and Pensions.

Appendix C - Anti-fraud and corruption statement

Blackpool Council is committed to the prevention of fraud and corruption.

It is important to Blackpool Council to use its income and resources in the most effective way for the delivery of high quality services to the community. Blackpool Council requires all employees and elected members to act honestly and with integrity and to safeguard the public resources for which they are responsible. Blackpool Council also expects the same levels of honesty and integrity from all individuals and companies dealing with the Council and will take appropriate action when fraud, bribery or corruption is suspected.

Introduction

The purpose of this statement is to set out the procedures to be followed where fraud, bribery or corruption is suspected or detected. It is part of Blackpool Council's overall approach to security and therefore it applies to the Council and all other parties who are given access to the Council's information and premises. It covers all personnel including Council staff, freelance, casual and temporary agency staff, contractors and elected members.

There is an expectation and requirement that all individuals, businesses and organisations dealing in any way with the Council will act with integrity and that Council employees at all levels will lead by example to prevent and detect fraud, bribery and corruption. The Council subscribes fully to the principles laid down by the Nolan Committee which include:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

Senior management and elected members are also expected to deal effectively with any potentially fraudulent or corrupt activity that comes to their attention.

Blackpool Council can be the victim of a variety of frauds, bribes or corrupt acts from time to time.

Definitions of Fraud

Fraud

The Council regards fraud as being any intentional distortion of financial statements and other records to achieve inappropriate gain, and the misappropriation of assets. This may involve:

- Falsification or alteration of accounting records or other documents
- Misappropriation of assets or theft
- Suppression or omission of the effects of transactions from records or documents
- Recording transactions which have no substance

- Wilful misrepresentations of transactions or of the Council's state of affairs

The Fraud Act 2006 categorises fraud into three main types, namely dishonestly intending to make a gain, or cause a loss or risk of loss by:

- Making a false representation
- Failing to disclose information when there is a duty to do so
- Abuse of position

Bribery & Corruption

Corruption is a serious criminal offence, set out principally in the Prevention of Corruption Acts and now the Bribery Act 2010. Corruption includes offering, giving, soliciting or accepting of any inducement or reward which would influence the actions taken by the body, its members or officers. Some of the main areas of activity, which may be particularly susceptible to corruption include:

- Contracts and commissioning
- Grants
- Asset disposal
- Planning consents
- Licenses and other approvals

The Bribery Act 2010 has established 4 offences:

- Offering, promising or giving a bribe
- Requesting, receiving or accepting a bribe (whether directly or through a third party)
- Bribing a foreign public official
- The failure of a commercial organisation to prevent bribery

Legislation

The Council will at all times whilst conducting investigations utilise and comply with the requirements of the appropriate legislation including:

- The Police and Criminal Evidence Act 1984 (PACE)
- The Theft Acts of 1968
- The Fraud Act 2006
- Audit Commission Act 1998
- Serious Crime Act 2007
- Proceeds of Crime Act 2002 (POCA)
- The Data Protection Act 1998
- Criminal Attempts Act 1981
- Forgery and Counterfeiting Act 1981

- The Corruption Acts (1889-1916)
- The Public Interest Disclosure Act 1998
- The Human Rights Act 1998
- The Regulation of Investigatory Powers Act 2000
- Criminal Procedures and Investigations Act 1996
- Criminal Justice Act 1987
- Bribery Act 2010

Council rules relating to fraud and corruption

Council employees are expected to abide by the National and Local Conditions of Service relating to their employment, which include conduct issues. Employees are also expected to follow any code of conduct related to their profession where these require a further duty of care.

Council members are required to comply with the Model Code of Local Government Conduct and associated protocols, which provide guidance to members on recommended standards of conduct in carrying out their duties and in their relationships with the Council and Council officers.

All members and employees are required to declare any offer or receipt of gifts or hospitality that are in any way related to their relationship with the Council. A hospitality register is maintained of all declarations. A register is also maintained for officers to declare any business or related interests, membership of, or associations with, clubs, societies and other organisations.

The Council's constitution governs the way the Council conducts its activities and places an obligation on all members and employees to act in accordance with procedure rules, responsibilities and functions and supporting financial regulations.

Senior management have a role in ensuring that the Council takes adequate steps to safeguard against the risk of bribery.

The Corporate Leadership Team must ensure that all staff have access to these rules and regulations and that staff receive suitable training where appropriate. Members and employees must make sure that they read, understand and comply with the rules and regulations that apply to them.

Should any person knowingly break the rules and regulations then the Council may take formal action. In the case of staff this could ultimately lead to dismissal, members could be reported to the Standards Board. The Council not taking adequate precautions to reduce the risk of bribery could also lead to a criminal conviction.

Fraud and Corruption Reporting

It is the responsibility of all staff to be alert for occurrences of fraud, bribery and corruption and to be aware that unusual events, transactions or behaviours could be indications of fraud (or attempted fraud) and corrupt practices. Fraud, bribery and corruption may also be highlighted as a result of specific management checks, by a third party, or in the course of audit reviews by both internal and external audit.

Service managers are responsible for maintaining an adequate framework of internal control to minimise potential losses by the Council. Risk Services is available to provide advice and assistance in this area, but service management retains responsibility for preventing and highlighting possible fraudulent and corrupt activity.

Any suspicion of fraud will be taken seriously. If you become aware of a suspected fraud or irregularity you should report it to either:

- your Line Manager;
- your Head of Service or Director,
- the Chief Internal Auditor; or
- via the whistle blowing procedure.

When a member of staff reports suspicions to their line manager or head of service, their information should be taken seriously and they should be dealt with in a considerate way. Managers receiving the information should report it to the Chief Internal Auditor as soon as possible so that a decision can be made about the need for an investigation.

Confidentiality for all parties will be maintained over reports made in good faith which cannot be substantiated following investigation. A reporting member of staff may choose to remain anonymous and such anonymity will be respected. However, identification is preferred and will assist the investigation. An anonymous disclosure cannot be made under the Public Interest Disclosure Act 1998 (the 'Whistleblowing Act'); staff must identify themselves to receive protection under the Act.

Employees must not do any of the following:

- contact the suspected individual in an effort to determine facts or demand restitution;
- discuss the case facts, suspicions, or allegations with anyone outside the Council (including the press) unless specifically asked to do so by the Monitoring Officer or the Chief Internal Auditor;
- discuss the case with anyone within the Council other than the people listed above;
- attempt to seize paperwork or other evidence.

Investigation Procedure

All fraud, bribery and corruption investigations should be discussed at the outset with the Chief Internal Auditor and Deputy Chief Executive (Human Resources and Organisational Development) to ensure appropriate procedures are followed and any necessary support is provided.

You must not attempt to personally conduct investigations or interviews or question anyone unless asked to do so by the leader of the investigation team.

Investigation results will not be disclosed to or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputation of persons subsequently found innocent of alleged wrongful conduct, and to protect the Council from potential civil liability.

In cases where an individual is suspected of fraud, which a subsequent investigation does not substantiate, it is important that the potential damage to the individual's reputation is minimised. Whoever originally reported the suspected fraud or irregularity will be informed that the investigation has revealed no wrongdoing.

Any necessary investigative activity will be conducted without regard to any person's relationship to the Council, position or length of service.

Conduct of Investigation

Investigations will be carried out by the Chief Internal Auditor or Corporate Fraud Officer, or a senior manager who is independent of the direct line responsibility, and will be conducted with discretion and sensitivity.

Those carrying out the investigation will confine themselves to investigating those matters that are the subject of, or relevant to, the suspected fraud, bribery or corruption.

On completion of the investigation, a written report will be prepared stating the facts established by the investigation. The report should avoid speculation or any statement that cannot be supported by evidence.

Prosecution Policy

Whenever possible, the Council will take action against all perpetrators of fraud and corruption, whether internal or external to the authority.

In cases of internal fraud and corruption the Chief Internal Auditor will discuss the findings of any investigation with the relevant service management and HR officers, who together will decide whether to take disciplinary action.

Cases of internal or external fraud and corruption, where there is potentially sufficient evidence for a criminal prosecution, will be referred to the police.

It may be necessary to involve the police for other reasons, e.g. to take forensic evidence or to search premises. In all instances, the investigating team should instigate contact with the police.

Learn From Past Experience

Where fraud, bribery and corruption have occurred management must take any necessary steps to amend systems and procedures to ensure that similar frauds or corrupt practices do not recur. The investigation may highlight where there has been a failure of supervision or a breakdown/absence of control. Internal audit is available to offer advice and assistance on matters relating to internal control, if considered appropriate.

Recovery of Loss

Where the Council has suffered loss, restitution will be sought of any benefit or advantage obtained and the recovery of costs will be sought from any individual(s) responsible for fraud or corruption.

As a first step the individual concerned will be asked to make good the loss. If the individual cannot or will not make good the loss consideration should be given to taking civil recovery action, subject to legal advice received.

Conclusion

Blackpool Council is committed to tackling fraud and corruption whenever it happens. The circumstances of individual frauds and corruptions will vary, but the Council's response should be effective and organised and will rely on the principles included in this document.

Appendix D – The Internal Audit Charter

Purpose

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The internal control environment comprises the policies, procedures and operations established to ensure:

- The achievement of objectives.
- The appropriate assessment and management of risk.
- The reliability of internal and external reporting and accountability processes.
- The prevention of fraud and corruption.
- Compliance with applicable laws and regulations.
- Compliance with the behavioural and ethical standards set for the Council.
- Economic, effective and efficient use of resources, i.e. value for money.
- Safeguarding of the organisation's assets and interests.

Independence

Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management.

Internal auditors adhere to the code of ethics set out in the Public Sector Internal Audit Standards and their own relevant professional bodies including the Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance and Accountancy.

Authority

Internal Audit has authority to carry out reviews of the financial and operational activities of the Council. Internal Audit neither has direct responsibility for, nor authority over, the activities it reviews.

Internal auditors have unrestricted access at all times to all records, assets, personnel and premises relating to these activities and have authority to make enquiries of Council officers, elected members and partner organisations.

Internal Audit has authority to conduct audit work on services provided by the Council to third parties, and to provide results of that testing to those third parties on request.

Responsibility

The Chief Internal Auditor is responsible for:

- Developing an annual audit plan based on an understanding of the significant risks to which the Council is exposed.

- Submitting the plan to the Finance and Audit Committee and the Section 151 Officer for review and agreement.
- Implementing the agreed audit plan.
- Ensuring the internal audit service complies with professional standards.
- Maintaining a professional internal audit team with sufficient knowledge, skills and experience to carry out an annual audit plan that supports the audit opinion.
- Delivering an annual audit opinion on the adequacy of the Council's internal control arrangements.