

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE
8th November 2013**

Report of: Chief Internal Auditor

Report Title: Internal Audit - Quarter Two Update Report

Ward: Citywide

Officer presenting report: Melanie Henchy-McCarthy/Alison Mullis, Chief Internal Auditor

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RECOMMENDATION

The Committee is recommended to note and comment on the attached Internal Audit quarterly update report which provides details of the cumulative position of Internal Audit work for period 1st April to 30th September 2013.

This report was presented to the Cabinet Member for Finance and Corporate Services on 23rd October 2013.

SUMMARY

Internal Audit now provides quarterly update reports which are a summary of the work carried out by Internal Audit as the year progresses. The second quarter report is attached at Appendix 1.

SIGNIFICANT ISSUES IN THE REPORT ARE:

- **Level of Risk:** As anticipated the Chief Internal Auditors opinion on the level of risk within the Council's control, risk and governance environment remains 'Of Concern' for the second quarter. (Paragraph 2.1)
- **Corporate Projects:** A number of projects have been introduced to tackle some of the long standing control and governance issues within the Council. (Paragraph 2.2)
- **Success in the fight against Fraud/Error:** Work in this area continues to yield significant benefits for the Council. (Paragraph 2.3)

Policy

There are no new policy implications arising from this report

Consultation:

Internal: None necessary

External: None necessary

1. Background

- 1.1 Internal Audit now provide quarterly update reports to management which is a summary of the work carried out by Internal Audit as the year progresses. This is the second of those reports and it includes an update on the progress made in key risk areas identified for improvement in order to decrease the level of risk within the Council's control environment. The full report is attached at Appendix 1, with a summary of significant issues provided below.
- 1.2 The Chief Internal Auditors' annual opinion on the level of risk within the Council's control, risk and governance environment was for the second year determined as being 'Of Concern' at the end of 2012/13. As such, the Audit Committee have instructed Internal Audit to monitor the environment closely and report the current situation regularly to the Committee and in particular, provide an update on the actions being taken to ensure the control environment improves, such that the level of risk is not of concern for a third year running.
- 1.3 Internal Audit is also keen to keep the Audit Committee up-to-date with its activities, performance and staffing/financial resources and the attached update report has been provided with a view to addressing all of the above requirements.
- 1.4 The Audit Committee remain concerned at the number of governance issues identified by Internal Audit and the external auditor. The Committee have called for an action plan which collates the all of the issues including those detailed in the attached report which provides a platform for continuous improvement reporting. The Service Director: Finance and Internal Audit are working together to ensure remedial actions are taken. Internal Audit will adjust quarter three and four plans to ensure assurance is obtained regarding the effectiveness of the actions.

The Audit Committee will be presented with the updated action plan at each of their meetings (commencing January 2014 meeting) until the issues are resolved.

2. Key Messages from the Report:

2.1 Level of Risk:

As anticipated and discussed at Audit Committee during their consideration of the 2012/13 Annual Internal Audit Report and more recently, our quarter 1 update report, the Chief Internal Auditors opinion on the level of risk regarding the Council's control and governance framework **remains 'of concern'** at the end of quarter 2. Whilst a number of projects have been introduced to tackle some long standing control and governance issues, the projects are still in the early stages of implementation and as such their effectiveness is yet to be felt across the organisation. Internal Audit recognises the work that has already been instigated by Senior Management and will continue to support them in

their efforts to improve the level of risk which has deteriorated over many years.

2.2 Corporate Projects:

Significant projects which aim to change previously ingrained behaviours and result in a more compliant and controlled organisation over time:

- Creation of a Finance Accounting Board to oversee improvements required to the financial control and governance arrangements at the Council.
- Introduction of the corporate panels to control and monitor spend in the three key spend areas
- Introduction of the new financial system and structure which, once fully implemented and embedded, should provide a sound platform going forward for strategic and operational financial management of the Council.

2.3 Success in the fight against Fraud/Error: The section continues to work proactively in the fight against fraud. The results demonstrate that this type of work continues to yield significant benefits for the Council, including:

- The Council's participation in the National Fraud Initiative has this year to date identified **£133k** for potential recovery.
- An on-going in-house matching exercise on Creditors has to date identified:
 - **£500k** of duplicate creditor payments - which are subject to future recovery from subsequent invoices
 - **£486K** of supplier debit balances – where the supplier owes the Council a refund.
- Internal Audit's work on Tenancy Fraud has to date recovered **fourteen properties** which can now be re-allocated to those in need.

Other Options Considered

Not applicable.

Risk Assessment

There are no risks arising directly from this report, although clearly the work of Internal Audit minimises the risk of failures in the Council's internal control environment and governance arrangements, reduces the risk of fraud and other losses and increases the potential for prevention and detection of such issues.

Equalities Impact Assessment

None necessary for this report

Legal and Resource Implications

Legal - none sought

Resources - none arising from this report

Appendices

Appendix A - Internal Audit Quarterly Update report for Quarter 2

LOCAL GOVERNMENT ACCESS TO INFORMATION

INTERNAL AUDIT UPDATE REPORT FOR PERIOD ENDING: 30th September 2013

APPENDIX (16) A

KEY TO COLOUR CODING	
	Significant
	Of Concern
	Moderate
	Minimal
	Advisory

Chief Internal Auditors Opinion on Level of Risk progress:						
11/12	12/13	Quarter 1 13/14	Quarter 2 13/14	Quarter 3 13/14	Quarter 4 13/14	Overall 13/14
Of Concern	Of Concern	Of Concern	Of Concern			
Key reasons for current opinion level: <ul style="list-style-type: none"> Issues of concern have been highlighted to Management and several key actions have been instigated to improve control. However these are still in the early stages of implementation and as such we have not yet been able to assess their effectiveness. Internal Audit continues to work with the Strategic Leadership Team and the Service Director finance to ensure key areas of concern are addressed. 						

Update on top key risk areas

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
<u>Financial Governance/ Control:</u>	<p>The Council commissioned an external review of the Financial Systems and processes during Q2 and the initial stage has been completed. It has determined and prioritised 15 key tasks (projects) for completion. These include improving the following areas which are important aspects of the control environment:</p> <ul style="list-style-type: none"> Documenting financial systems processes/control environment for sign off by Internal Audit by January 2014 Resolving remedial issues with ABW Completing the reconciliation of balances brought forward from the old system to the new system Review of interface controls to ensure that other systems which feed into ABW are doing so correctly <p>The review also recommended formation of a governance board to oversee progression of the 15 key tasks. This has now convened and Internal Audit will participate on this board going forward to ensure control improvements are</p>	Of concern

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
	<p>addressed.</p> <p>Internal Audit Work in Q2 completed or in progress:</p> <ul style="list-style-type: none"> • Migration – Debtors Standing Data Migration – completed – no issues. • Bank Reconciliation remains of concern. It was previously audited prior to the introduction of ABW and is due to be re-audited in Q3 post ABW. • Main Accounting, Accounts payable, Payroll follow up and Treasury Management reviews – in progress <p>Whilst Internal Audit is aware that there is considerable work underway within Finance to ensure the new system and the use of it, is fit for purpose and as such provide improved controls, the work is not yet sufficiently progressed for Internal Audit to form an opinion on its effectiveness and as such the level of risk to the Council remains as ‘of concern’.</p>	
<u>Procurement:</u>	<p>The Council has recently implemented a Corporate Non Pay Panel to review some areas of spend. This requires approval being obtained for all spend in these areas and includes a focus to ensure that framework contracts are used or developed where spending indicates such an arrangement would provide value. Additionally, a Capital Investment Board has been formed to re-draw and better control the capital investment plans for the Council. Adherence to the requirements of the panels to be reviewed by Internal Audit with a briefing to SLT in Qtr 3, and thereafter monitored by Internal Audit to ensure fully embedded into the overall control environment.</p> <p>Whilst large service contracts are managed well (eg Waste collection/Hengrove Leisure Centre), the lower levels of procurement are still of concern as evidenced by the number of frauds and non-compliance identified in this area.</p> <p>Internal Audit - Q2 work/completed or in progress:</p> <ul style="list-style-type: none"> • Waste Collection Contract – satisfactory (ref below) • CCTV contracts – in progress • Follow up work re Mechanical & Electrical, Parks Contracts, Exor – Vetting of Contractors system – in progress • Procurement Fraud e-training development finalised and ready to launch. 	Of concern
<u>Consultants:</u>	<p>SLT has provided clarity regarding the use of consultants/agency staff going forward. It is felt this method of delivery is acceptable and favoured at a time when budgets are reducing. However, as yet a policy and guidance to govern the use of consultants has yet to be finalised to ensure that value for money is obtained from such arrangements.</p> <p>In recent months a People Panel has been in place to review appointment of any staff including the use of consultants.</p>	Moderate

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
<u>Implementation of Recommendations:</u>	<p>The level of follow up work completed in Q2 was limited due to resourcing issues in Internal Audit. For Q3 forwards Internal Audit is amending its follow-up process to ensure it is:</p> <ul style="list-style-type: none"> • more dynamic - with responsible senior officers required to demonstrate improvement measures have been implemented, and • reflective of the current situation as it improves or otherwise. Internal Audit continues to raise issues with Strategic Directors as appropriate. <p>In addition:</p> <ul style="list-style-type: none"> • SLT to see as a regular item the list of outstanding recommendations and progress towards implementation as part of the cyclical SLT sessions – frequency to be determined. The list should reflect if recommendations are new or historic, outline if items are still relevant and highlight where recommendations are able to be removed from the list or if new items are required. 	
<u>AGS Issues.</u>	<p>A number of the significant governance issues raised in the Annual Governance Statement (AGS) are currently under review either directly or as part of a planned audit. Appropriate Action Plans for improvement are detailed in the AGS document itself which are currently in progress. When the Internal Audit work has been completed an updated opinion on the overall level of risk appertaining to the AGS issues will be determined.</p> <p>Direct work currently in progress in Q2 re AGS issues</p> <ul style="list-style-type: none"> • Audit review of development control decision making • Audit Review of decision making • Audit review of the Mayor’s Forward Plan <p>Issues covered as part of other planned work:</p> <ul style="list-style-type: none"> • Financial Controls and Governance • Use of consultants • Metrobus (BRT) • Information Security • Capital Projects 	Of concern

Follow-up Work and matters for Escalation

Improved sufficiently for level of Risk to be reduced:

DIRECTORATE	AUDIT	ORIGINAL LEVEL OF RISK	RESIDUAL LEVEL OF RISK	QUARTER	COMMENTS
OD	HB Assessment Teams	Of Concern	Moderate	1	
NH/CD	M Shed	Of Concern	Moderate	1	
OD	Electoral Register System	Of Concern	Moderate	1	
NH	Museum Collection – New collection	Of Concern	Moderate	2	

Follow up work either due or in progress:

DIRECTORATE	AUDIT	ORIGINAL LEVEL OF RISK	Follow Up Status	
OD	Payroll	Of Concern	In Progress	
OD	Mechanical & Electrical, ,	Of Concern	In Progress	
NH	Parks Contracts	Of Concern	In Progress	
Corporate	Exor – Vetting of Contractors system	Of Concern	In Progress	
Corporate	Use of consultants	Of Concern	In Progress	
Corporate	Decision Making	Of Concern	In Progress	
HSC	Safeguarding Arrangements	Of Concern	Scheduled Q4	
HSC	Direct Payments	Of Concern	Scheduled Q1 2013/14	
CYPS	Formula Financing For Schools	Of Concern	Deferred	Recommendations to be followed up as part of a full audit review.

Failed to improve sufficiently for level of risk to be reduced:

DIRECTORATE	AUDIT	ORIGINAL LEVEL OF RISK	RESIDUAL LEVEL OF RISK	QUARTER	COMMENTS
OD	Markets Operation	Of Concern	Of Concern	1	A number of improvement actions remain in progress, but we have assurance from senior management they will be completed by

DIRECTORATE	AUDIT	ORIGINAL LEVEL OF RISK	RESIDUAL LEVEL OF RISK	QUARTER	COMMENTS
					January 2014.
OD	Bank Reconciliation and Cheque control	Of Concern	Of Concern	2	Actions to resolve this have been determined and the Service Director Finance has requested Audit Follow up in Q3 to provide assurance the issues are resolved.

Fraud and Value for Money Work

Pro-active Fraud Work and Testing

DIRECTORATE	WORK/TESTING AREA	STATUS	COMMENTS
CORP	Fraud Policy and Strategy Review (new Q2)	In Progress	In preparation for presentation to SLT and Audit Committee approval in December/January
CORP	Expenses testing (new Q2)	In progress	Analytical review stage
CORP	National Fraud Initiative	On going	£133k of savings identified for recovery to date.
CORP	Creditors Testing – in-house matching exercise	In Progress	£500k of duplicate payments have been identified to date and will be recovered as appropriate from future invoices received £486K of supplier debit balances identified (i.e. unapplied credit notes to be recovered)
CORP	Procurement Analytics	In Progress	Focussing on three contractors where spend has raised concerns.
NH	Tenancy Fraud	On going	14 properties regained this year to date
OD	NNDR Fraud	In Progress	Pilot exercise with National Fraud Authority/Ordnance Survey and Credit Reference agency to identify extent of NNDR Fraud.

Year to Date Re-active Fraud

DIRECTORATE	FRAUD/IRREGULARITY AREA	ORIGIN	STATUS	COMMENTS
HSC	Administration of Imprest Account	Service	Complete	Non-compliance with Financial

DIRECTORATE	FRAUD/IRREGULARITY AREA	ORIGIN	STATUS	COMMENTS
		Director		Regulations, disciplinary pending.
NH	Procurement – Contractor favouring	W Blower	Complete	Both Contractor and Employee found guilty and custodial sentences awarded. Pursuing a compensation order for Est £18k.
NH	Mis-use of Grant income	Officer	Complete	Employee Dismissed
NH/CD	Misappropriation of income	W/Blower	Complete	Employee Dismissed
NH/CD	Misuse of Council Property	W/Blower	Complete	No issues.
NH	Alleged Misuse of Grant Funding paid out	W/Blower	Complete	Further information requested from W/Blower has not been forthcoming therefore no further action
NH	Community Grant paid out Misappropriation	W/Blower	Complete	Grant stopped. Organisation disbanded. Chairman jailed for two years and four months.
Corp	Alleged Procurement Card Misuse	Officer	NFA	
NH	Planning Issue	External	Referred	Referred to Planning and Local Taxation.
OD	Procurement Card Expenditure – mis-allocation or invalid expenditure query	Officer	Watching Brief	Referred to STS Finance for resolution. Update awaited, however original issue has not re-occurred.
CYPS	Fleet car misuse/Misappropriated mileage claims	Service Manager	In Progress	Case referred to Police, disciplinary pending.
OD	Allegation – Material income misappropriation	W/Blower	In Progress	
NH	Procurement – Alleged Contractor favouring	Officer	In Progress	
NH	Procurement – Alleged inflation of contract	W/Blower	In Progress	
NH/Reg	Alleged Misuse of Grant Funding	Fair Comment/W Blower	In Progress	
NH/CD	Blue Badge Misuse	Officer	In Progress	
OD	Misuse of Council Property (Telephone)	Officer	In Progress	Poor controls – to be finalised and reported. However reason for original issue still under investigation. Possible VFM exercise to be undertaken.
HSC	Direct Payments	Officer	In Progress	
NH	Exempt Accommodation	Police	In Progress	Information provided to Police

DIRECTORATE	FRAUD/IRREGULARITY AREA	ORIGIN	STATUS	COMMENTS
NH	Community Housing Association	Audit	In Progress	Information to be forwarded to Housing Benefit Fraud Team
NH	Alleged Theft of Assets	Service Director	In Progress	Poor controls identified and reported. Theft being investigated.
NH/CD	Concessionary Fares	Neighbouring Council	On Hold	Waiting information from other Authority.

Key areas of Assurance Work Completed

DIRECTORATE	AUDIT	LEVEL OF RISK	QUARTER	COMMENTS
CYPS	Fostering Service – In house and Independent	Moderate	1	
CYPS	Personalisation - Direct Payments (Young People)	Moderate	1	
CD	Hengrove PFI Monitoring Arrangements	Moderate	1	
OD	Capital Accounting	Moderate	1	
HSC	Strategic Commissioning – Mental Health and Learning Difficulties	Of concern	2	Commissioning Team are in a transition stage from purchasing focus to commissioning focus. Going forward use of BCC Commissioning framework needs to be fully embedded, and a commissioning strategy finalised. Other issues - non compliance with procurement regulations, contracts review and administration and service provider quality assurance.
RGEN	Financial Governance arrangements re Project with Government Agency	Of concern	2	Weak governance arrangements
NH	Waste Services Collection	Moderate	2	
CYPS	Children in Residential Care	Moderate	2	
NH	Gas Installation	Moderate	2	Issues re stores and security of gas installation equipment. Health and Safety issues well managed.
Various	Grant Certification Completed: <ul style="list-style-type: none"> • Troubled Families • Scam busters 	Minimal	2	Grants certified and claims submitted.
NH	Loans Crisis fund	Advisory	2	Advisory only – working with management review controls before putting procedures into place. Action Plan only – no formal opinion.

DIRECTORATE	AUDIT	LEVEL OF RISK	QUARTER	COMMENTS
CYPS	Schools Finance	Advisory	2	Advisory only – working with Finance to ensure issues resulting from change are identified and resolved going forward.

Risk Management Programme

SUBJECT	STATUS
Independent review of Risk Management Arrangements	Completed
Integration of Core Governance Systems and Challenge Processes – Planning, risk, performance, budgeting	In Progress
Review of Risk Identification methodologies and development of a more effective Corporate Risk Register	In Progress
Action Plan development in response to Risk Management review	In Progress
Audit Committee Annual Report	Completed

QUARTER 2 PERFORMANCE

<u>Value for Money Indicators</u>	Annual Target 13/14	Quarter Target: (2)	Quarter Actual: (2)	Quarter Actual: (1)
<u>Effectiveness Indicators</u>				
Final Reports issued within 3 weeks of audit completion.	92%	92%	100%	89%
High/Medium recommendations Implemented or Escalated	95%	65%	50.33%	44%
No. of Council Properties recovered	35	15	14	5
% of planned Assurance work completed/in progress/not required by auditee each quarter	90%	90%	85.4%	100%
% of QAQs with a score of 4 or more	95%	95%	96%	100%
External Audit Opinion on Internal Audit (Annual Indicator)	Positive	N/A	N/A	N/A
<u>Efficiency Indicator</u>				
% of planned follow-up work completed/in progress within protocol timescale.	90%	90%	66.7%	80%
Chargeable days (Annual Indicator)	69%	N/A	N/A	N/A
<u>Economy indicator</u>				

<u>Value for Money Indicators</u>	Annual Target 13/14	Quarter Target: (2)	Quarter Actual: (2)	Quarter Actual: (1)
Audit cost per £1M gross turnover (Annual Target)	Comparable to other comparator groups	N/A	N/A	N/A

Performance in quarter 2 has been affected by continued long term sickness, the loss of a further member of staff and the impact of the summer holidays when throughput is affected by the reduced number of available productive days due to annual leave. Internal Audit are due to lose a further member of staff in quarter 3, however remedial action is now in progress to address the shortfall in resources, as detailed below.

Financial Resource

Spending remains well within budget and is forecast to be such going forward. Action to utilise small surplus to fill resources gap currently in progress, see below for further details.

HR Resource

Use of actual financial resources at the end of quarter 2 were slightly less than that predicted at the beginning of the year taking into account long-term sickness issues and maternity, this is due in part to the unpredicted loss of a staff member part way into quarter 2. Surplus resources going forward will be utilised to backfill vacant posts, subject to People Panel agreement, in order to ensure that the service is sufficiently resourced to provide assurance coverage to the statutory minimum or above. Considering the current status of the Council's control environment it would be prudent to provide coverage above the minimum until improvements are implemented and considered fit for purpose.