

BRISTOL CITY COUNCIL
AUDIT COMMITTEE
14th February 2014

Report of: Chief Internal Auditor

Report Title: Internal Audit - Quarter Three 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 31st December 2013.

This report was presented to the Cabinet Member for Finance and Corporate Services on 28th January 2014.

SUMMARY

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

SIGNIFICANT ISSUES IN THE REPORT ARE:

- **Level of Risk:** The Council is demonstrating a positive direction of travel in its efforts to improve the overall level of risk within the Control, Risk and Governance environment; as such the current level of risk is considered to be **Medium**. There is demonstrable commitment to ensuring issues previously identified are moving towards resolution, however it is paramount that the momentum is not lost during the final quarter and going forward into the new financial year, particularly in light of the loss key managers who have been the drivers for this improvement.

- The factors which have contributed to the reduction in the level of risk are:
 - The number of Financial audits which IA have been able to complete and which have resulted in a **Moderate** level of risk;
 - The noticeable increase in the implementation of IA recommendations;
 - Satisfactory improvements in a number of Annual Governance Statement issues;
 - The number of 'Other' Audit reviews which have resulted in a **Moderate** level of risk.
- **Risk Management:** A Risk Management workshop with the Extended Leadership Team (ELT) has been arranged for early February 2014. The aim of the workshop is to debate and identify corporate risks. The workshop will be facilitated by external risk experts.
- **Internal Audit Performance:** Performance in quarter 3 has been affected by the limitations of our available resource and the difficulty of sourcing additional resources in an expedient manner. A level of additional resource was secured at the latter stage of Quarter 3 with further additional resource being sought for Quarter 4.

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 third 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 A, with a summary of significant issues provided above.
- 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 called for an action plan which collated all of the issues identified by both Internal and External Audit which contributed to the level of risk in 2013/14. As such, the Interim Direct of Finance provided a verbal update to the Audit Committee at its meeting on 17th January 2014 regarding the progress made in resolving accounting and control issues. Further updates are planned for the April 2014 meeting and forward into the next municipal year.

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 3

LOCAL GOVERNMENT ACCESS TO INFORMATION

INTERNAL AUDIT UPDATE REPORT FOR PERIOD ENDING: 31st December 2013

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
High	High	High	High	Medium		
<ul style="list-style-type: none"> The Council has demonstrated a positive direction of travel in its efforts to improve its Control, Risk and Governance environment. If progress continues in key areas there is no reason why the level of risk should not continue to reduce going forward. 						

Update on top key risk areas

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
Financial Governance/ Control:	<p>In recognition of the level of remedial work in progress at this time within Finance and the positive direction of travel which is emerging from the work currently being undertaken by Internal Audit as detailed below, the level of risk in this area is currently considered to be Medium. However there is no room for complacency and the continued support and input by the Strategic Leadership Team (SLT) will be important in continuing to dive the organisation to a higher level of compliance and control.</p> <p>Internal Audit Work in Q3 completed or in progress:</p> <ul style="list-style-type: none"> Migration – Debtors Standing Data Migration – completed – no issues. Payroll follow up – complete with a generally satisfactory opinion, however one key matter is to be reported separately. Treasury Management review – complete with a satisfactory opinion. Bank Reconciliation-Review currently in progress. Main Accounting – in progress, early indications of a positive direction of travel with no key issue emerging to date. Accounts Payable – in progress, positive direction of travel, fundamental controls generally in place however some key areas still to resolve. Momentum to correct needs to be maintained. Accounts Receivable – in progress. Budgetary control – to be commenced Q4. Capital Debt Project – to be commenced Q4 . 	Medium

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
<u>Procurement:</u>	<p>Internal Audit have completed a strategic review of the Council’s recently implemented Corporate Pay panel, Non Pay Panel and Capital Programme Board in order to ensure the Panels are focussing their resource in the right direction and as such achieving an improvement in the Council’s governance environment.</p> <p>In general, the Panels have made a good start in terms of the outcomes they were set up to achieve, however there are still a number of areas which require further improvement to ensure the panels fully meet their terms of reference/outcomes.</p> <p>A follow up review of the Panels progress will be undertaken in Q4 in consultation with the Finance Business Partner who is currently reviewing the work of Non-Pay Panel.</p> <p>Internal Audit procurement specific work has identified satisfactory progress with regards to the control arrangements as demonstrated by the work listed below and as such the level of risk is considered to be Medium at this time. However as with financial governance there remains a body of work to be done to ensure the appropriate changes in behaviours which should result in robust procurement practices.</p> <p>Internal Audit – work/completed or in progress:</p> <ul style="list-style-type: none"> • Waste Collection Contract – satisfactory (ref below) • Exor – Vetting of Contractors system Follow-up – Satisfactory • Hengrove PFI – Satisfactory • CCTV contracts – Needs Improvement (ref below) • Follow up work re Mechanical & Electrical, Parks Contracts – in progress • Procurement Regulation Waivers – in progress <p>Procurement Fraud e-training development finalised and launched targeting those within areas of high risk.</p>	Medium
<u>Consultants:</u>	<p>Whilst it is accepted that the use of Consultants is a necessary option within the current fluid environment in the Council, there remains an absence of corporate guidance regarding the appointment of Consultants and the subsequent monitoring of the outcomes once the work has been assigned.</p> <p>Aspirations that the People Panel would play a part in the engagement and monitoring of output from Consultants has yet to be put in place and as such the use of consultants is still somewhat uncontrolled.</p>	Medium

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
	<p>However, as the level of spend on Consultants remains comparatively low in comparison to the Council's overall spend the level of risk is considered to be Medium at this time.</p>	
<p><u>Implementation of Recommendations:</u></p>	<p>The implementation of Internal Audit recommendations has shown a positive direction of travel with an increase in implementation from approximately 50% to 81%. The support of the Strategic Leadership team (SLT) and Service Directors has been pivotal to this improved response.</p> <p>Whilst this improvement is encouraging there remains the need to achieve 100% compliance in order to ensure improvement in the Control, Governance and Risk environment within the Council and as such the level of risk is currently considered as Medium.</p>	<p>Medium</p>
<p><u>AGS Issues.</u></p>	<p>There has been some positive progress in the significant areas detailed within the Annual Governance Statement, as detailed below; this has resulted in a change in the level of risk from High to Medium.</p> <p>Direct work currently in progress in re AGS issues</p> <ul style="list-style-type: none"> • Audit review of development control decision making – in progress • Audit Review of decision making – satisfactory progress • Audit review of the Mayor's Forward Plan – significant improvements have occurred in this area now considered satisfactory <p>Issues covered as part of other planned work:</p> <ul style="list-style-type: none"> • Financial Controls and Governance – See above • Use of consultants – See above • Metrobus (BRT) – work to progress in this area in Q4 	<p>Medium</p>

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	Date Report Issued:	COMMENTS
OD	HB Assessment Teams	Of Concern	Moderate	April 2013	
NH/CD	M Shed	Of Concern	Moderate	May 2013	
OD	Electoral Register System	Of Concern	Moderate	June 2013	
NH	Museum Collection – New collection	Of Concern	Moderate	October 2013	
OD	Corporate Payroll	Of Concern	Moderate	December 2013	In general satisfactory improvement has been achieved within the Payroll control environment.
Corporate	Exor – Vetting of Contractors system	Of Concern	Moderate	October 2013	
Corporate	Use of consultants	Of Concern	Moderate	December 2013	Whilst some progress has been made in this area there remains a key issue which will need resolution going forward (see above)

Follow up work either due or in progress:

DIRECTORATE	AUDIT	ORIGINAL LEVEL OF RISK	Date Report issued:	Follow Up Status	
OD	Mechanical & Electrical	Of Concern	November 2012	In Progress	Delay due in part due to delayed response from auditee. To be escalated to Service Director.
NH	Parks Contracts	Of Concern	May 2012	In Progress	Delay due in part due to delayed response from auditee. To be escalated to Service Director.
Corporate	Decision Making	Of Concern	February	In Progress	Good progress has been made in this

DIRECTORATE	AUDIT	ORIGINAL LEVEL OF RISK	Date Report issued:	Follow Up Status	
			2013		area.
HSC	Direct Payments	Of Concern	July 2013	Scheduled Q1 2014/15	Follow up date agreed with Strategic Director - HSC
HSC	Safeguarding Arrangements	Of Concern	June 2013	Scheduled for Q4 13/14	
CYPS	Formula Financing For Schools	Of Concern	January 2013	Scheduled for Q4 13/14	

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

DIRECTORATE	AUDIT	ORIGINAL LEVEL OF RISK	RESIDUAL LEVEL OF RISK	Date Report Issued:	COMMENTS
OD	Facilities Management -Markets Operation Follow-up	Of Concern	Of Concern	July 2013	There are indications of a positive direction of travel within the Market Operation. A further follow up has commenced in quarter 4

Fraud and Value for Money Work

Members received a Fraud Update report at their January 2014 meeting which gives up-to-date details of our Fraud and VFM work and as such it has not been duplicated here.

Other Key areas of Assurance Work Completed

DIRECTORATE	AUDIT	LEVEL OF RISK	Report Issue Date:	COMMENTS
CYPS	Fostering Service – In house and Independent	Moderate	April 2013	Both reviews were concluded as Moderate level of Risk.
CYPS	Personalisation - Direct Payments (Young People)	Moderate	April 2013	

DIRECTORATE	AUDIT	LEVEL OF RISK	Report Issue Date:	COMMENTS
CD	Hengrove PFI Monitoring Arrangements	Moderate	May 2013	
OD	Capital Accounting	Moderate	April 2013	
HSC	Strategic Commissioning – Mental Health and Learning Difficulties	Of concern	April 2013	Follow-up scheduled for late March early April 2014
RGEN	Financial Governance arrangements re Project with Government Agency	Of concern	September 2013	Issues surrounding governance arrangements require remedial action.
NH	Waste Services Collection	Moderate	July 2013	
CYPS	Children in Residential Care	Moderate	September 2013	
NH	Gas Installation	Moderate	October 2013	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 • Carbon Efficiency • Elena • Air Quality Commission 	Minimal	Various	Grants certified and claims submitted. With a further Troubled Families submission required in Q4
NH	Loans Crisis fund	Advisory	September 2013	Advisory only – working with management review controls before putting procedures into place. Action Plan only – no formal opinion.
CYPS	Schools Finance	Advisory	September 2013	Advisory only – working with Finance to ensure issues resulting from change are identified and resolved going forward.
NH	Engineering Practice	Moderate	October 2013	
NH	Housing Rents System (ICT)	Of Concern	November 2013	Needs Improvement. Poor access control and reconciliation issues.
NH	CCTV Contracts	Moderate	November 2013	Needs Improvement. Issues with contract letting not CCTV operation.
CYPS	Schools opting out of Schools Financial system	Moderate	November 2013	Some improvements required, but level of risk considered Moderate.

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 – Workshop scheduled	In Progress
Action Plan development in response to Risk Management review	Completed
Risk in Decision making – tools to advisors	Completed
Policy and /strategy Review	Completed
Audit Committee Annual Report	Completed

QUARTER 3 PERFORMANCE

<u>Value for Money Indicators</u>	Annual Target 13/14	Quarter Target: (3)	Quarter Actual: (3)	Quarter Actual: (2)	Quarter Actual: (1)
<u>Effectiveness Indicators</u>					
Final Reports issued within 3 weeks of audit completion.	92%	92%	89%	100%	89%
High/Medium recommendations Implemented or Escalated	95%	80%	81.56%	50.33%	44%
No. of Council Properties recovered	35	25	29	14	5
% of planned Assurance work completed/in progress/not required by auditee each quarter	90%	90%	83.59%	85.4%	100%
% of QAQs with a score of 4 or more	95%	95%	88.75%	96%	100%
External Audit Opinion on Internal Audit (Annual Indicator)	Positive	N/A	N/A	N/A	N/A
<u>Efficiency Indicator</u>					
% of planned follow-up work completed/in progress within protocol timescale.	90%	90%	78.57%	66.7%	80%
Chargeable days (Annual Indicator)	69%	N/A	N/A	N/A	N/A
<u>Economy indicator</u>					
Audit cost per £1M gross turnover (Annual Target)	Comparable to other comparator groups	N/A	N/A	N/A	N/A

Performance in quarter 3 has been affected by the limitations of our available resource and the difficulty of sourcing additional resources in an expedient manner. A level of additional resource was secured at the latter stage of Quarter 3 with further additional resource being sought for Quarter 4. With regard to the QAQ scores which are down on previous performance, as this target has been stretched this year in that it is measuring where Internal Audit service is considered 'Good' or above as opposed to previous years where the measure was based on 'satisfactory' or above it was expected that the performance rating could dip temporarily. However despite the output being below target at this time the level of satisfactory service or above remains at 96.25%.

Early indicative results of the External Auditor opinion on the effectiveness of Internal Audit are positive as per Grant Thornton's Financial Resilience Benchmarking report (Jan 14).

Financial Resource

Spending remains well within budget and is forecast to be such going forward. An amount of surplus funds has been utilised to secure additional resources in this quarter and in quarter 4, further details provided below. In line with the Council's change programme Internal Audit is anticipating budget reduction in 2014/15 in the region of 10 – 15%. Whilst Internal Audit acknowledges that limited resource must be directed to frontline service, the Council needs to ensure it meet its statutory obligation to provide an adequate and effective internal audit service. Additionally, work completed by Internal Audit which is not statutorily required does continue to identify benefits/savings for Council in excess of the cost (ref: Fraud Update).

HR Resource

Use of actual financial resources at the end of quarter 3 were less than that predicted at the beginning of the year taking into account long-term sickness issues, maternity, and the loss of a further two members of staff. Surplus funding in Quarter 3 and going forward is being utilised to backfill vacant posts, an action which was been approved by the People Panel. This should ensure that resourcing is at least at the statutory minimal level going into the final quarter of the year.