

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE
27th June 2014**

Report of: Chief Internal Auditor

Report Title: Internal Audit - Annual Report 2013/14

Ward: Citywide

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

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RECOMMENDATION

The Committee is recommended to note and comment on the attached Internal Audit Annual Report for 2013/14.

This report was presented to the Deputy Mayor and Cabinet Member for Finance & Corporate Services on 10th June 2014.

SUMMARY

The report provides details of the work completed by Internal Audit during 2013/14 and the Chief Internal Auditors' overall opinion on the control framework.

Areas of significant risk exposure are detailed in the report together with details regarding Internal Audit performance and effectiveness

SIGNIFICANT ISSUES IN THE REPORT ARE:

- The Chief Internal Auditor's opinion on internal control and risk exposure. (Section 2)
- Areas of significant risk exposure (Section 3)
- A summary of Internal Audit Activity during 2013/14. (Section 4/Appendix A)
- Effectiveness of Internal Audit (Section 5)
- Details of follow up work and matters escalated (Section 6)
- Looking Forward including brief details of the proposed Internal audit service review (Section 8)

Policy

There are no new policy implications arising from this report

Consultation:

Internal: None necessary
External: None necessary

1. Background

1.1 Public Sector Internal Audit Standard 2013 (PSIAS) require that a report on the work of Internal Audit should be prepared and submitted to Members annually. Accordingly, the Internal Audit Annual Report is prepared and submitted to both the Executive and the Audit Committee. Additionally, quarterly update reports and relevant reports on key issues arising throughout the year will be submitted as necessary to both the Executive and the Audit Committee. The report being submitted at this time is the Annual Report of Internal Audit activities during the financial year 2013/14.

1.2 The PSIAS detail the following requirements in respect of annual reporting:

“The Head of Internal Audit must provide an annual report to the organisation timed to support the Annual Governance Statement. This must include:

- an annual opinion on the overall adequacy and effectiveness of the organisations governance, risk and control framework (the control environment);
- a summary of audit work from which the opinion is derived;
- a statement on conformance with PSIAS and the results of the internal audit quality assurance and improvement programme;
- disclosure of any qualifications to the opinion, together with the reasons for the qualification
- disclosure of any impairments (in fact or appearance) or restriction in scope;
- a comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets;
- any issue the Head of Internal Audit judges particularly relevant to the preparation of the annual governance statement

1.3 The issues detailed in the attached report have been considered by the City Council in the formulation of the draft AGS for 2013/14. The report has also been considered by Strategic Leadership Team (SLT) who have agreed to continue to support and monitor improvement actions required.

1.4 The Accounts and Audit Regulations 2011 require that as part of the annual review of internal control, a review of the effectiveness of internal audit is undertaken. The Audit Committee's Terms of Reference include ensuring that

Internal Audit is effective. Paragraph 5 - 9 of the Annual Report sets out the factors that the Committee will have considered throughout the year in determining the effectiveness of internal audit. It is suggested that the evidence supports the view that this effectiveness is satisfactory, and a commentary on the Committee's views was included in the Committee's 2013/14 report to full Council.

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 1 - Internal Audit Annual Report 2013/14

LOCAL GOVERNMENT ACCESS TO INFORMATION

Background Papers

- Various audit files
- CIPFA Code of Practice for Internal Audit in Local Government 2006
- Public Sector Internal Audit Standards and Local Government Application Note



INTERNAL AUDIT REPORT



Information Classification: Level 1 Due care

Annual Report for 2013/14

Report Date: 27th June 2014

Issued by

A. Mullis & M. Henchy-McCarthy

Chief Internal Auditor (J/S)

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes. (Public Sector Internal Audit Standards 2013)

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1. Purpose of this Annual Report

1.1 This Annual Report provides a summary of the work completed by Internal Audit (IA) during 2013/14. Its purpose is to:

- Provide the Chief Internal Auditors' annual opinion on the overall adequacy and effectiveness of the Council's governance, risk management and control framework during 2013/14 to support the preparation of the Annual Governance Statement.
- Provide a summary of the work completed from which the opinion is derived
- Draw attention to areas of significant risk exposure which need corrective action to improve the control framework
- Consider activity, performance and effectiveness of the Internal Audit service

2. Audit Opinion

Chief Internal Auditor (CIA) Annual Opinion:

The CIA annual opinion on the residual level of risk in the control, risk and governance environment within the Council has been 'High' for the past two years, however Internal Audit work in this past year has identified noticeable improvements in key risk areas, particularly in the latter end of the financial year and as such the level of risk is considered to be '**Medium**' (amber) at year end.

The main reasons for the revised and improved level of risk in comparison with previous years are:

2.1 Financial Systems:

2.1.1 There were some difficulties with the implementation of the new finance system which took some considerable finance resource to resolve. However, issues for resolution were prioritised by management and satisfactory progress has been evident and is being monitored by the Finance Accounting Board. Many of the issues have now been resolved but there are still a number to be addressed. Whilst much of the remedial work in 2013/14 centred around ensuring the financial systems produce information fit for the final accounts, going forward, the focus of improvements is to ensure the financial systems are fully fit for purpose into the future.

2.1.2 Internal Audit were unable to review the key financial systems during 2012/13 due to the financial system implementation. However, we have now been able to complete reviews and have concluded positively in the following areas:

- Main Accounting (subject to our independent confirmation that management assurances regarding resolution of income management and allocation issues identified earlier in the year have progressed to a satisfactory conclusion)
- Orders and Payments (subject to resolution of issues regarding feeder system, duplicate payment checking and recovery, value for money processes)
- Budgetary Control
- Payroll
- Treasury Management
- Capital Accounting

2.1.3 Additionally, there remain a number of areas of concern, which whilst showing positive action to ensure they are fit for purpose, are still of significant enough impact that their level of risk remains High/Medium until resolution is achieved. These include:

- Bank Reconciliation - we have been unable to audit this given the previously reported issues which are currently being worked on by the Finance Team. Post year end, we are advised by Finance staff that the issues have been resolved. Internal Audit will be auditing this area in July 2014/15.
- Accounts Receivable – an interim report has been issued which identifies significant areas for improvement. Internal audit are working with management to ensure these issues are resolved to secure a more satisfactory opinion going forward.

2.1.4 Corporately, the adequacy of financial governance has been monitored by measuring the number of core financial systems with an Internal Audit opinion of satisfactory or better. At the end of 2013/14, this performance indicator demonstrated an improvement in the number of systems over which reasonable assurance could be provided with performance moving from 58% at the end of 2012/13 to 80% at the end of 2013/14.

2.2 **Procurement Issues**

2.2.1 Internal Audit procurement specific work has identified progress with areas of previous concerns regarding procurement and contracts. Generally, the larger contracts we reviewed are in compliance with procurement regulations and are delivering to specification. However, sound procurement practice is essential to the effective functioning of the Council and there remains a necessity to focus on ensuring the appropriate changes in behaviour which should ensure robust procurement practices continue – particularly for the numerous medium/smaller sized contracts let by the Council.

2.3 **Implementation of recommendations:**

- 2.3.1 The implementation of Audit recommendations has shown a marked improvement during the year. Appendix A details the follow up reviews completed and the improvements in controls systems since our original work. This demonstrates the strength of support received from the Strategic Leadership Team and the Directorate Leadership Teams in ensuring control matters are taken seriously and agreed actions are implemented.
- 2.3.2 Additionally, the use of interim reporting as part of the audit reporting process has allowed management to gain early insight into key problem areas for prompt resolution prior to the official conclusion of our audit work and formulation of our opinion. This not only ensures that easily fixed control issues that will significantly impact on our opinion are implemented promptly but also negates the need for later follow up work and focuses the audit reports to those areas where solutions require more thought.

2.4 Annual Governance Statement (AGS):

- 2.4.1 A number of the significant issues within the 2012/13 AGS have now been progressed to a level where they are no longer considered to be an issue, these include:

- The Mayors Forward Plan and Decision Making Reports
- Senior Management Capacity
- Care Service Charging Policy
- Development Control Area Committees.
- Constitution
- Metrobus (BRT) Project
- Capital Projects
- Information Security

2.5 Other High Risk Areas:

- 2.5.1 Appendix A details all audit work completed or in progress at the end of the year together with the resulting audit opinion and overall level of risk to the Council where appropriate. It identifies 4 reviews that concluded a level of risk as 'Of Concern' at the time of the audit work (also indicated). Follow up in each of these areas has been planned for 2014/15 to assess the current levels of risk. The issues identified in these areas are predominantly of a financial or contractual risk nature rather than non-compliance issues which may result in harm to citizens or service users.

3. Areas of Risk Exposure / Annual Governance Statement Matters (AGS)

- 3.1 As detailed above and in Appendix A there has been a marked improvement in the level of risk both within service areas and overall. However, there remain a number of areas where there is still a level of potential risk exposure if the momentum is not continued. As such the following areas should be considered when reviewing the Annual Governance Statement:

Area	Reason:
Financial Systems	Detailed in paragraphs 2.1 above
Use of Consultants	Whilst there has been some improvement, notably in the appointments of consultants being subject to competitive tender and approval by the Corporate panels, controls still need to be improved around tender evaluation, engagement, and monitoring of consultants contracts. Furthermore there is a need for guidance in this area, to ensure that consultants help deliver the objectives of the Council in a wide range of strategically important areas.
Fraud and Irregularity	Detailed in paragraph 4 below.
Schools Governance	A number of issues have arisen with regard to financial governance within schools, these include: <ul style="list-style-type: none">• Failure to maintain and up-to-date Financial Regulations for Schools – currently four years out of date• Lack of clarity with regard to the roles and responsibilities of the Trading with Schools function.• Issues identified by Internal Audit with regard to financial governance within schools.

4. Other Activity

Risk Management and Annual Governance Review/Statement

- 4.1 Internal Audit have worked alongside the Extended Leadership Team (ELT) to revise the approach to the way in which the Council identifies its key risks and how these risks are managed, monitored and challenged. Risk experts, Zurich Municipal, were engaged to facilitate fresh thinking and processes that will deliver better and more targeted risk management work going forward. The Audit Committee will receive a separate report regarding the outcomes from this work which will continue throughout 2014/15 at their meeting in July 2014. The positioning in the organisation of this element of risk management work is being reviewed in light of the corporate restructure.

- 4.2 Internal Audit has again lead the Annual Governance review process on behalf of the Council. The Audit Committee will receive a separate report regarding the findings from this review and issues of concern it identified at their meeting in July 2014.

Schools Assurance - Financial Value Standard (SFVS)

- 4.3 The SFVS assessment is a self-assessment by schools of their financial arrangements that is approved by Governors. All Local Authority maintained schools met the requirement of submitting a signed SFVS assessment by the 31st March 2014. The results from the SFVS returns have been used to inform the schools audit plan for 2014/15.

Fraud and Irregularity

- 4.4 The Council has a legal duty to protect public funds and make adequate and effective arrangements for the prevention and detection of fraud and irregularity. In the current economic climate there is a well publicised potential for fraud against Local Authority and Internal Audit contributes to the fraud risk management framework by ensuring:
- frauds which occur are properly investigated and dealt with, including recovery of losses whenever possible;
 - any required improvements in the control framework which will prevent such frauds recurring are identified and reported to management for corrective action;
 - fraud is pro-actively sought out in the highest fraud risk areas;
 - a strong anti-fraud culture is promoted and developed.
- 4.5 The Council, with full support from the Strategic Leadership Team and Members, take the matter of fraud seriously and the Council's proactive approach to tackling fraud in some key areas is nationally recognised.
- 4.6 A comprehensive update of work completed by Internal Audit in respect of both proactive and reactive fraud work was provided to the Committee in January 2014 but the following paragraphs provide the Committee with an update of the issues raised in that report.
- 4.7 Cases of fraud and irregularity continue to be referred to Internal Audit for investigation and the introduction of a dedicated Fraud Investigation Team part way through 2013 will allow for an increased investigation turnaround rate and conclusion success rate as the team develops. During the year, 54 cases have been referred to Internal Audit as detailed below, compared to 23 cases recorded in 2012/13. Whilst this suggests a sharp increase in the number of referrals, this may be reflective of improved systems and processes for recording all referrals to the section coupled with heightened awareness of

the Anti-fraud, Bribery and Corruption Policy. These figures will continue to be recorded during 2014/15 which should help increase understanding of the level of fraud experienced by the Council going forward:

Fraud Type	No of Cases
Housing Benefits	9
Procurement	8
Cash	6
Grant	6
Local Taxation	5
Staff	5
Assets	3
Cheque	2
Employment Fraud	1
Other	9
Total	54

Referral Source	No of Cases
Internal Whistle-blower	11
External Referral	9
Manager	8
Other (eg police, NFI, other LA's, IA)	26
Total	54

Referral Status	No of Cases
Investigated and Closed	14
No detailed investigation	13
Live at year end	27
Total	54

4.8 Of the 14 closed cases, investigations have concluded and resulted in funds recovery totalling **£151k and the regain of a council property**:

- 4 cases resulted in successful prosecution with **£141.5k recovered** through proceeds of crime awards.
- 2 employees were dismissed (although 1 re-instated on appeal) with **£8.5k recovered**.
- 1 cheque replacement was refused saving the Council **£892**
- 1 employee received a warning
- 4 cases could not be proven but advice was given regarding improvements to the control framework or other matters
- 2 cases were referred to HR/Corporate Complaints to take forward.

4.9 **Duplicate Payment Testing:** Testing for creditor duplicate payments has continued throughout the year, whilst a more permanent solution is sourced and tested. The Fraud Investigation Team have had considerable success in identifying duplicate payments which have potentially saved Council funds. The total value of duplicates identified in the year is £1,176,735 but is considered to be mainly due administrative processes rather than fraudulent activity. Additionally Internal Audit have been working alongside Finance in developing and improving monthly testing for duplicate suppliers, as these can sometimes be the cause of duplicate payments.

- 4.10 **National Fraud Initiative (NFI):** Total savings identified to date from NFI data matching is £166,498, predominantly from two key areas - Housing Benefits £72,393 and Creditor Duplicates £94,105 (this is included in the duplicate payments total identified above). Data for the next NFI exercise will be collated in October 2014 with initial output expected in January/February 2015.
- 4.11 **Local Taxation** - Internal Audit has completed a matching exercise between Council Tax and Electoral Registration and this has yielded 2,945 cases to be reviewed in 2014/15.
- 4.12 **Tenancy Fraud Initiative:** This initiative continues to generate positive results with properties being regained for issue to individuals/ families with a genuine need. During the year **39 properties** have been regained – 5 in excess of our targeted recovery and our highest annual recovery rate to date. Since the initiative began in 2010, a total of **104** properties have been recovered.
- 4.13 Housing Benefit fraud remains one of the most significant fraud risks facing the City Council, in terms of both financial value and workload. The Council has a dedicated and specialist team tackling this area, working under the Chief Internal Auditor, and their work is reported separately to Audit Committee at this meeting.

Internal Audit Service Review/Reshape

- 4.14 In line with the corporate restructure, the Internal Audit Service have taken the opportunity to reshape its service and at the same time meet the budget constraints which by necessity are being imposed on all services within the Council. A separate paper will be brought to the Committee providing greater detail on the proposed plan, but in the short term the proposal is as follows:
- Reduce the management team by 1 post
 - Reduce the number of Senior Auditor posts in order to make the service less top heavy and more cost effective
 - Increase the investigation resource available to complement auditor skills and ensure an holistic approach to fraud prevention, detection and investigation is achieved.
 - Increase the number of Auditor posts in order to redress the balance of experience and resource
 - Introduce a Trainee post, thereby providing for upcoming staff that have an interest in the Service, whilst at the same time succession planning.

- 4.15 All of this will achieve a 16% saving on our 2013/14 salaries budget and aims to result in a service that provides resilience, staff development opportunities and continues to contribute a valued service to the Audit Committee, the Senior Leadership Team and the Section 151 Officer in terms of assurance required, identification of improvements and efficiencies and a strong response to the threat of fraud. The reshape was started in 2013/14, but as with the corporate restructure will run into 2014/15.

5. Internal Audit Service Performance and Effectiveness

- 5.1 Overall, it has been another challenging year for the Internal Audit Service seeing continued changes to its own management structure and processes as well as trying to engage and respond to key changes across the Council. Over the last 12 months the following have added to the challenge in delivery of our services: the implementation of the new financial systems which was problematic; planning for our own service review to run alongside the corporate restructure. However, staff have tackled these issues sensibly and performance remains of a good standard. Additionally, our proactive work has again demonstrated the value that the service has provided over the last year.
- 5.2 Additionally, the inevitable loss of organisational knowledge at this time of change has temporarily impacted on the turnaround time of Audit reviews, however it is accepted that as the corporate restructure proceeds and staff settle into their new posts/environment delays will be limited.

Implementation of new Public Sector Internal Audit Standards (PSIAS)

- 5.3 The new PSIAS became effective from 1st April 2013. Internal Audit reviewed its compliance with the PSIAS requirements with the following outcomes:
- Update of the Audit Charter to clarify the roles and responsibilities in respect of Internal Audit, the Strategic Leadership Team, the s151 Officer and the Audit Committee which was approved by the Committee at its meeting in November 2013;
 - Review of how Internal Audit independence is clearly demonstrated including:
 - a review of our reporting arrangements
 - the level at which we report
 - the independence of those reviewing the Chief Internal Auditor's performance, appointment and remuneration

- rotation of staff to ensure independence in delivery of audit work
- A report on our compliance with the Standards which was presented to the Committee at its January 2014 meeting.

A peer review by another authority is planned for 2015/16 in line with the requirement to have an independent review of compliance with the standards every four years.

Performance Against Targets

- 5.4 Performance targets have been identified and progress against these is continually monitored throughout the year to ensure good value for money is provided by the Audit Service. Performance against these targets for 2013/14 is as follows:

Value for Money Indicators	2013/14 Actual	2013/14 Target	2012/13 Actual
Final Reports issued within 3 weeks (21 days) of audit.	83% (93% <i>within 24 days</i>)	92%	70.3%
% of audit reports with a significant or of concern level of risk, followed up within protocol timescale	82%	90%	N/A – New PI
Recommendations Implemented or Escalated	100%	100%	89%
No of Council Properties recovered	39	35	26
% of planned assurance audits completed/in progress/not required by auditee.	86.7%	90%	100%
% of QAQs with a score of 4 or more	90%	95%	100% (with a score of 3 or more)
External Audit Opinion on Internal Audit	Good	Good	Good
Chargeable days (Annual Indicator)	63.8% (70.6% without sickness)	69%	65.8%
Audit cost per £1M gross turnover	TBA	N/A	£712

- a. Chargeable days are within reasonable tolerance levels but continued to be affected by long term sickness issues within the Service. The Absence Management Policy was applied to manage this together with support from the HR function.
- b. The timely issue of reports was a little down on target, but well above target for those issued within 24 days, this is a considerable improvement on last year's performance.

- c. Performance with regard to the level of assurance work complete or in progress was down this year, partially due to resource issues, including the impact of long-term sickness and the delays incurred due to inability to access all systems in need of review. The reviews which were not started at the year-end have been carried through to this year's plan after the appropriate risk assessment.
- d. The external auditor commented in their SAS 610 report that internal audit arrangements were sufficient and they have not raised any concerns regarding the focus or quality of Internal Audit work.
- e. Our customer satisfaction rate is down on last year and target, however as we have stretched the target from 'satisfactory' (score 3) to 'good' (score 4) level of service we expected a temporary reduction in the rate. It should be noted that based on a satisfactory level of service our performance was 96.4%. Work will be carried out as part of our service re-shape to establish why our performance at 'Good' or above is below target and what we can do to achieve that higher level going forward.

5.5 The following table also demonstrates that actual coverage in terms of work type was broadly in line with that planned, however throughout the year, the work programme was continually re-assessed to ensure coverage was correctly prioritised:

	% Planned	% Actual
Assurance	44	46
Fraud and Value for Money	37	32
Risk Management	4	6
Liaison and Advice	6	8
Income Generating	3	4
Audit Service Development	6	4
Total	100	100

Value for Money:

- 5.6 The Audit Service continues to demonstrate a clear value to the Council in excess of its cost. The Fraud update provided to the Committee in January 2014 identified potential recoverable amounts and compensation/recoveries of approximately £2.9m from both our pro-active and responsive fraud work.
- 5.7 In addition to this, our assurance work identifies areas where implementation of our recommendations will improve value for money for the service under review/Council. The value of this element of our work is difficult to measure but we have recognised the need to do so for all work we do going forward and as such have clearly identified the outcome expected from each work assignment and where possible will measure the value of the work undertaken.

6. Escalation Matters

- 6.1 Internal Audit operate a follow up and escalation procedure which requires all high and medium rated recommendations made in areas where the level of risk is considered significant or of concern to be subject to follow up review within 6 months (if feasible) of the original audit. The purpose of this follow up review is to determine progress with implementation of agreed improvement recommendations and escalate matters where sufficient progress has not been made to address control weaknesses.
- 6.2 Follow up work completed in year has identified many areas where recommendations have been implemented or, where issues have arisen, the recommendation has been escalated appropriately. The Strategic Leadership Team have taken a strong stance on the failure to implement both internal and external audit recommendations and this support has had a positive effect on the implementation of recommendations throughout the year. Internal Audit have an open invitation to present to SLT any matters which they feel are not being addresses appropriately and where they feel SLT can have an impact.
- 6.3 Now that the Strategic Leadership Team has been fully appointed, quarterly update meetings will resume, either directly with the relevant Strategic Director or through attendance at a Directorate Leadership Team (DLT) meetings. These meetings will be used to highlight areas where recommendations have been slow to be implemented as well as taking the opportunity to gain an update on implementation rather than waiting until our 6 months follow-up as required by our Follow-up Policy.

7. Resources

- 7.1 Overall, the actual resources available to the service were down on that planned for the reasons as detailed above in section 6 above.
- 7.2 Work was underway in the latter end of the year and forward into the new financial year to maximise available resource and tackle the issue of long-term sickness. Please see section 5 above and 8 below for further details.

8. Looking Forward

- 8.1 The Internal Audit service looks forward to tackling the many challenges facing its own service and those in the wider council during 2014/15 and beyond. Specifically, we aim to target the following developmental areas for the Audit service:
- Service review and reshape in line with the corporate restructure will continue and should result in an audit service which costs less than current, provides a balanced skills mix and supports resilience by providing opportunities for staff. The benefits of the re-shaped service will likely be fully realised into 2015/16, when the corporate restructure is complete and new staff have undergone sufficient training and development.
 - Development of audit processes and techniques to maximise assurances we are able to provide in the most efficient way, including greater use of technology as and when it becomes available in line with the corporate 'new way of working' ethos.
 - Working with management to ensure that our working and reporting methodologies support them in improved service delivery as well as providing the required assurances.
 - Further development of a corporate fraud team to enhance the existing specialist expertise required in dealing with such issues and maintain the strong counter-fraud activity currently completed on behalf of the Council. Additionally, development of the team will ensure the counter-fraud arrangements are maintained when the specialist Housing Benefit fraud investigators move to the Department of Work and Pensions (DWP) and some of their work is 'out of scope' to transfer.
 - Internal Audit will continue working with senior management with a view to reassigning Risk Management function. It is not yet clear where the function will sit, but the aim is to move it away from Internal Audit from an operational point of view, allowing us to take a more independent view of the risk management status within the Council.

- Internal Audit will seek to build on the existing support demonstrated by senior management to ensure that the heightened profile of risk, governance and control arrangements continues.

9. Context and Compliance

- 9.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes. (Source: Public Sector Internal Audit Standards and Local Government Application Note: Chartered Institute of Public Finance and Accountancy in collaboration with the Chartered Institute of Internal Auditors).
- 9.2 Internal Audit is a statutory requirement for local authorities. There are two key pieces of relevant legislation:
- Section 151 of the Local Government Act 1972 requires every local authority make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs
 - Section 6 of the Accounts and Audit Regulations 2011 (England) states that a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control, including review of its system of internal audit, in accordance with proper practices in relation to internal control.
- 9.3 Internal Audit has operated in accordance with the newly introduced Public Sector Internal Audit Standards and Local Government Application. Paragraph 5.2 details the work undertaken in 2013/14 to ensure our compliance with the standard.
- 9.4 Internal Audit independence is achieved by reporting lines which allow for unrestricted access to the Elected Mayor, City Director, Strategic Leadership Team and Chair of the Audit Committee. Direct reporting lines are to the Director of Finance (s151 Officer) and this has the potential to cause conflict. Such conflict was experienced in the early part of the year, but this issue has been resolved by enhancing the role of the Audit Committee/Chair by making provision for the Chair of the Audit Committee to participate in the performance review of the CIA and for the Audit Committee to endorse decisions made concerning the appointment and removal of the Chief Internal Auditor (CIA). The CIA reports in their own name to SLT and the

Audit Committee. No operational functions are completed by Internal Audit unless in strict emergency situations. With these arrangements it is now felt that the internal audit function is independent.

- 9.5 The Accounts and Audit Regulations 2011 require an Annual Governance Statement (AGS) to be published along with the Statement of Accounts which provides assurance regarding the governance arrangements in place at the Council. The outcome of Internal Audit work and this annual report provides a key source of assurance for the Mayor, City Director and the s151 Officer in their consideration and signing of the Council's AGS.

SUMMARY OF INTERNAL AUDIT WORK 2013/14

PLANNED ASSURANCE WORK COMPLETED

Directorate	Subject	Status	Opinion	Risk Level	Comments
HSC	Safeguarding	Complete	Needs Improvement	Of Concern - June 2013	Issues identified, however they did not directly impact on the safety of service users but collectively impacted on the efficiency and effectiveness of the safeguarding function. Follow up scheduled in 2014
HSC	Direct Payments General Audit	Complete	Needs Improvement	Of Concern - July 2013	Financial review failings and financial administration issues were identified. Fraud work is planned in this area, matters arising from audit review will be picked up as part of exercise
HSC	Strategic Commissioning Arrangements (Learning Difficulties and Mental Health)	Complete	Needs Improvement	Of Concern - September 2013	Audit review was completed at a time when the commissioning team were in transition from purchasing focus to commissioning focus. Use of Commissioning framework needed to be fully embedded, and a commissioning strategy finalised. Other issues - non compliance with procurement regulations, contracts review and administration and quality assurance. Matter to be followed-up as part of corporate review of Commissioning planned for 2014/15
NH/CD	CCTV	Complete	Needs Improvement	Of Concern - November 2013	Non compliance with legislation and lack of contract for repairs and maintenance of contract. Follow up Scheduled for early 2014
NH/CD	Governance arrangements - Tenancy Management Organisation	Complete	N/A	Moderate	Tenancy Management Organisation Closed down and Chair sent to prison
NH/CD	Engineering Practice	Complete	Good	Moderate	
NH/CD	Hengrove PFI – monitoring	Complete	Satisfactory	Moderate	
NH/CD	Waste Services Collection, Street Scene etc.	Complete	Satisfactory	Moderate	
CORP	Waivers	Complete	Needs Improvement	Moderate	
CORP	Panels (Capital, Non Pay, People)	Complete	Needs Improvement	Moderate	
CS	ABW – Ordering and Payment Process – sign off - standard audit	Complete	Satisfactory	Moderate	
CS	ABW Data Migration Review (including cut off)	Complete	Satisfactory	Moderate	
CS	ABW - Main Accounting	Complete	Satisfactory	Moderate	
CS	ABW Budgetary Control	Complete	Satisfactory	Moderate	
CS	Capital Accounting	Complete	Satisfactory	Moderate	
CS	Treasury Management	Complete	Satisfactory	Moderate	
CS	Financial Systems Implementation - 'Hot Spots' Reporting	Complete	Satisfactory	Moderate	
CYPS	Personalisation Direct Payments (Young People)	Complete	Good	Moderate	

Directorate	Subject	Status	Opinion	Risk Level	Comments
CYPS	In-house Fostering Service	Complete	Good	Moderate	
CYPS	Independent Fostering Service – Commissioning Foster Carers	Complete	Satisfactory	Moderate	
CYPS	Children in Residential Care - Financial Admin Arrangements in one office.	Complete	Needs Improvement	Moderate	
CYPS	Primary School	Complete	Needs Improvement	Moderate	
CYPS	Trust School - Opted out of Pearson Financial System	Complete	Needs Improvement	Moderate	
CYPS	Primary School - Opted out of Pearson Financial System	Complete	Satisfactory	Moderate	
CYPS	Information Security	Complete	Satisfactory	Moderate	
CYPS	Special School - Opted out of Pearson Financial System	Complete	Good	Minimal	
CYPS	Troubled Families Initiative Grant Certification Process	Complete	Satisfactory	Moderate	
HSC	Care Services Charging Policy - AGS Watching Brief	Complete	N/A	Minimal	
CORP	Air Quality Commission Grant	Complete	Satisfactory	N/A	Grant Certification
CORP	Urbact Grant - Sustainable Food	Complete	Satisfactory	N/A	Grant Certification
CS	Carbon Efficiency Grant -12/13	Complete	Satisfactory	N/A	Grant Certification
CYPS	Troubled Families Initiative Grant Certification Process – Complex criteria, 2 certification exercises in the year	Complete	Satisfactory	N/A	Grant Certification
NH	ELENA Grant Audit	Complete	Satisfactory	N/A	Grant Certification
Regen	Gigabit - Bristol SME Vouchers (Controls sign off)	Complete	Satisfactory	N/A	Grant Certification
CS	Member's Services (Equipment, telephones etc.)	Complete	N/A	N/A	VFM Exercise
CORP	Procurement analytics	Complete	N/A	N/A	Analytics to inform future audit work
NH/CD	Metro Bus	Complete	N/A	N/A	Fact Finding and watching brief
CYPS	Assurance over fleet car usage	Complete	N/A	N/A	Advice and Guidance
NH/CD	Lovells (Decent Home Partnership)	Complete	N/A	N/A	Advice and Guidance
NH/CD	Crisis Loans	Complete	N/A	N/A	Advice and Guidance
CS	Bacstel System	Complete	N/A	N/A	Advice and Guidance
CS	Payment of Courts Fees	Complete	N/A	N/A	Advice and Guidance
CS	Employment Status 13/14	Complete	N/A	N/A	Advice and Guidance
CS	Finance Accounting Board Support	Complete	N/A	N/A	Advice and Guidance
CS	Schools Accounting Issues	Complete	N/A	N/A	Advice and Guidance
CS	Unallocated income	Complete	N/A	N/A	Advice and Guidance
CYPS	Children's Centre	Complete	N/A	N/A	Advice and Guidance
OD	Cheque Printing Problem	Complete	N/A	N/A	Advice and Guidance
CS	ABW Controls Review - Insight	Complete	N/A	N/A	Consultancy
CYPS	Monitoring SFVS Returns to inform audit planning and collation of returns fri S151 sign off	Complete	N/A	N/A	Consultancy
CYPS	School Fund Audit Certificate - Monitoring and chasing the return of Audit Certificates. 9 Special Schools, 5 Secondary Schools, 75 Primary, 29 Nurseries and CC's	Complete	N/A	N/A	Consultancy
CYPS	Schools Outsourcing Financial Systems	Complete	N/A	N/A	Consultancy
HSC	Departmental Financial Administration	Complete	N/A	N/A	Consultancy

Directorate	Subject	Status	Opinion	Risk Level	Comments
CS	Bottle Yard	Complete	N/A	N/A	Consultancy
HSC	Supporting People - Review of Service Provider	Complete	N/A	N/A	Consultancy
CORP	Information Assurance Board	Complete	N/A	N/A	Networking and Advice

PLANNED FOLLOW-UP AUDIT WORK COMPLETED

Directorate	Subject	Status	Original Level of Risk	Revised Level of Risk	Comments
CD/NH	Housing Rent System (ICT) – Business Continuity Planning, Disaster Recovery, Logical Security, Resilience	Complete	Of Concern	Moderate	
CD/NH	M Shed	Complete	Of Concern	Moderate	
CD/NH	Parks - Major Contracts, e.g. Grounds Maintenance	Complete	Of Concern	Moderate	
CD/NH	Museum collection - new collection	Complete	Of Concern	Moderate	
CORP	Use of Consultants (Cross directorates)	Complete	Of Concern	Moderate	
CS	Corporate Payroll System	Complete	Of Concern	Moderate	
CS	HB Assessment Teams	Complete	Of Concern	Moderate	
CS	Facilities Management - Markets Operations	Complete	Of Concern	Moderate risk based on income levels for the area.	In February 2014 there remained a number of significant financial control issues to resolve primarily concerning reconciliations and debt recovery controls. The area is now subject to new management and finance staff have now been assigned to resolve these issues.
CS	Electoral Registration System	Complete	Of Concern	Moderate	
CORP	Decision Making	Complete	Of Concern	Minimal	
CS	Bank Reconciliation	On Hold	Of Concern	Deferred	Work on this area was deferred due to implementation issues. Work to commence in quarter 1 of 2014/15

PLANNED ASSURANCE WORK IN PROGRESS AT YEAR-END

Directorate	Subject	Status	Comments
CS	Northgate System IT Review	In Progress	
CS	ABW - Bank Reconciliation Process sign off	In Progress	
CYPS	Protocol System	In Progress	
BC	ABW ICT Review	In Progress	Nearing Completion
BC	ABW Accounts Receivable - Debtors	In Progress	Interim Report Issued
BC	Exempt Accommodation	In Progress	
BC	Carbon Efficiency -13/14	In Progress	
CORP	Contracts where Payments are made in Advance	In Progress	

PLANNED FOLLOW-UP WORK IN PROGRESS AT YEAR-END

Directorate	Subject	Status	Comments
CS	Building Practice - Electrical	In Progress	Difficulties experienced with

Directorate	Subject	Status	Comments
CYPS	Formula for Financing Schools - Review of the Funding Allocation and include arrangements for additional funding i.e pupil premium) - Including risks around changes to funding	In Progress	Formula process has changed therefore full review being completed

PRO-ACTIVE FRAUD/VFM AGENDA

Subject	Status
Fraud Awareness/Web page/Bulletin	Complete
Annual Fraud Survey	Complete
Procurement Fraud - awareness training	Complete
Creditor Duplicate Testing (CFS to ABW)	Complete
Fraud policy and strategy review	Complete
NFI Download - (Adjust days for interim or main)	Complete
Gain Enquiries	Complete
Warning bulletins	Complete
Whistleblowing compliance with best practice	In Progress
NNDR Fraud Testing	In Progress
Investigation Protocol Review	In Progress
Expenses Fraud/VFM Testing	In Progress
Fraud Web Pages review	In Progress
Homelessness Work - Tenancy Fraud	In Progress
NFI Direct Payment to Deaths	In Progress
NFI - Review of output	In Progress
Better Enforcement Group	In Progress
Telephone bill - VFM review	In Progress
Tell us Once - deaths	In Progress

RISK MANAGEMENT PROGRAMME

Subject	Status
Risk in decision making - tool to advisors	Complete
Risk Management Policy and Strategy Review	Complete
CRR Approach Review and Maintenance. Incl Assessing the extent to which risk registers drive management team meetings (target	In Progress
Integration with planning performance management - work	In Progress
DRR Approach Review - extent to which risks are discussed at DLT.	In Progress
Annual Governance Statement 2012/13 completion and 2013/14 commencement	In Progress

DEVELOPMENT PROGRAMME

Directorate	Subject	Status
CORP	WOE Fraud Group	Complete
CORP	Intranet	Complete
CORP	WOE Procurement Group	Complete
CORP	WOE Computer Group	Complete
CORP	WOE Children's and Young Peoples Group	Complete
CORP	H&S Rep on behalf of Finance - CS attending	Complete
CORP	Data Sharing Agreement	In Progress
CYPS	Health Check programme for Schools	Complete
CYPS	Health Check programme for Children's Centres	Complete
CYPS	Public Sector Internal Auditing Standards	Complete
CYPS	WOE Health and Social Care Group/Public Health	Complete