

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE
23rd September 2014**

Report of: Chief Internal Auditor

Report Title: Internal Audit Periodic Report – Period 1
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 periodic update report which provides details of Internal Audit work for period 1st April to 31st July 2014.

This report was presented to the Cabinet Member for Finance and Resources on 12th September 2014.

SUMMARY

Internal Audit now provides periodic update reports rather than quarterly to ensure the Committees updates are timely. The reports provide a summary of the work carried out by Internal Audit as the year progresses. The first period report is attached at Appendix A.

SIGNIFICANT ISSUES IN THE REPORT ARE:

- The context within which the Internal Audit service has operated during period 1 (paragraphs 1.2 – 1.4)
- The work and conclusions of Internal Audit during the period is provided at appendix A and summarised at paragraph 2.

Policy

There are no new policy implications arising from this report

Consultation:

Internal: None necessary
External: None necessary

1. Background and Context

- 1.1 Internal Audit provide periodic update reports to management and the Audit Committee which summarise the work carried out by Internal Audit as the year progresses. Attached at Appendix A is the first of those reports for 2014/15. The report is provided to:
- present the work completed by the Internal Audit team during the year to date, together with the conclusions we have drawn from that work.
 - highlight any significant issues to management or the Audit Committee for their consideration and necessary action.
 - provide management and the Audit Committee with details of Internal audit coverage and performance, to assure them that the Audit service continues to be effective and resourced to be fit for purpose.
- 1.2 In respect of the last point above, the report is provided in a period of significant change for the Internal Audit team. The Corporate restructure has brought with it the opportunity to reshape the team into a more focussed and cost efficient resource by:
- rebalancing the ratios of senior and more junior staff
 - developing dedicated and appropriately skilled teams to deliver both our programmed assurance work and an effective fraud response on behalf of the Council
 - reviewing our working practices to ensure we work efficiently and more effectively with management to invoke the changes required to secure robust control and governance arrangements proportionate to the risks being managed.
- 1.3 The timing of the Corporate and team restructure is such that resources within the team were reduced during period 1 and this will continue into period 2 as the BG 1 – 9 restructure works though. It is anticipated that our revised structure (which can be seen at Appendix B) will be fully recruited to by November 2014. This was fully anticipated and the audit plan was devised with this level of resource in mind and the team are on target to deliver the plan.

2. Key Messages from the Work Completed:

- 2.1 The attached report provides details of internal Audit work completed and the conclusion on each of the control and governance frameworks reviewed.
- 2.2 Section 1 of the report provides an update on progress in key risk areas identified during 2013/14 which resulted in our annual audit opinion on the risk and control environment being 'of concern' this time last year. Since then, significant progress has been made in many of these areas which reduces the level of our concern to a medium level of risk. To ensure momentum is maintained in addressing these areas, our periodic reports highlight these significant areas separately to enable clearer monitoring of progress. Period 1

results demonstrate that progress continues to be made in these areas.

- 2.3 Section 2 provides details of other assurance and grant certification work we have carried to enable the Council to claim various grant funding. In most of the areas covered, procedures were robust and risk levels acceptable.
- 2.4 Section 3 of the reports demonstrates the proactive and responsive fraud work we complete on behalf of the Council. Fraud and irregularity referrals continue to be received by the team and notably during this period, several reports from schools have been received and investigated. During these investigations, the control frameworks relevant to the irregularities at the schools have been reviewed and found to be needing improvement. However, each of the schools we have audited in our programmed work has demonstrated satisfactory governance and control arrangements which is currently providing a mixed message concerning the standards of governance in schools. It is understood that work is in progress to provide clearer guidance to schools on roles and responsibilities which will assist in ensuring governance standards are strengthened.
- 2.5 Section 4 of the report records the work completed on risk management on behalf of the Council.
- 2.6 Section 5 presents performance against targets for the team during the period. Generally performance is good given the level of change being experienced by the team but some areas have been highlighted for improvement as the new team settles in and develops going forward.
- 2.7 Taking into consideration the results of work we have completed, our overall opinion on the level of risk remains at 'medium' following this period. At this time, whilst there are areas we are aware of where controls are not working effectively, management is responding positively to our observations and there are not any significant issues requiring Audit Committee intervention.

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 Periodic Report – Period 1

Appendix B - Internal Audit Revised Structure

LOCAL GOVERNMENT ACCESS TO INFORMATION

INTERNAL AUDIT UPDATE REPORT FOR PERIOD ENDING: 31st July 2014

Chief Internal Auditors Opinion on Level of Risk progress:						
11/12	12/13	13/14	Period 1 Apr – Jul 2014	Period 2 Apr – Nov 2014	Period 3 Apr 14 – Feb 2015	Overall 14/15
High	High	Medium	Medium			
<ul style="list-style-type: none"> The Council continues to demonstrate improvement in the control environment as evidenced by the level of residual risk for completed reviews as detailed below. 						

1. UPDATE OF WORK COMPLETED IN KEY RISK AREAS:

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
Financial Governance/ Control:	<p>Internal Audit work in this area has been limited in this initial period of the year. This is due to the extensive work completed in the previous year and the need to allow time for remedial work to take effect and the impact to materialise. However, work has been undertaken in the following areas:</p> <ul style="list-style-type: none"> Budgetary control for 2013/14 – complete with a satisfactory Audit opinion and a level of risk as Moderate. ABW Core Finance Processes – documented processes have been reviewed and controls ‘in principle’ were examined and are considered satisfactory. Programmed audit work to be completed will fully test the robust implementation of the controls on a regular basis. ABW ICT Security – An interim report has been issued in this area as the initial audit opinion was Needs Improvement with a level of risk as High. This area will be revisited in order to confirm the agreed remedial actions have been implemented but on-going discussions indicate good progress to date. Bank Reconciliation and Income Management– audit work in this area has commenced to provide independent confirmation that the finance team have brought the reconciliations up to date and unmatched items are effectively resolved. <p>Regarding Accounts Receivable – an interim report had been issued at the end of last year 2013/14 detailing concerns in this area. This will be followed-up as part of the planned coverage for 2014/15 to ensure improvements have been made and that the number of ‘unallocated’ items have been reduced.</p>	Medium

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
<u>Procurement:</u>	<p>For reviews which were carried forward from 2013/14, their status is as follows:</p> <ul style="list-style-type: none"> • Building Practice – Electrical follow-up. Complete with a Needs Improvement’ opinion for the second time, but with a Moderate level of risk given the size of the contracts and potential losses. • CCTV Contract follow-up – Complete with a Satisfactory Opinion and a Moderate level of Risk. • Landlord Service and use of new frameworks – on hold pending resource availability (anticipated Q3 re-start) <p>A number of themed audit reviews are planned within Procurement in this current year. They include:</p> <ul style="list-style-type: none"> • Tendering • Contract where payments are made in advance – in progress • Contract Monitoring • Strategic Commissioning 	Medium
<u>Consultants/Interims:</u>	<p>The use of Consultants/Interims continues to be an Annual Governance Statement item, however some progress has been made in that the appointment of consultants/interims has to be approved by the Corporate People and Non Pay Panels. This provides a more robust framework to control cost.</p>	Medium
<u>Implementation of Recommendations:</u>	<p>The implementation of Internal Audit recommendations had shown a positive direction of travel to the year end and with greater use of interim reporting we anticipate that this trend will continue in this current year.</p> <p>Interim Reporting allows the customer time to implement the quick win recommendations within an agreed period of time, thereby ensuring efficient and effective improvements to the control environment without any delay. This process enhances buy-in from our customers and has a positive impact on the overall control environment.</p> <p>In addition, work has been undertaken with the People Directorate to develop an Audit Recommendation Tracker for regular presentation to the Director and DLT to monitor progress in implementing the higher priority recommendations. Once a trial period has passed, it is intended to recommend roll out of this approach to all Directors and DLT’s to assist in monitoring the implementation of recommendations.</p>	Medium
<u>AGS Issues.</u>	<p>Internal Audit continually monitor progress towards actions planned to resolve issues identified as a result of the AGS review process. This work has continued throughout the period and all previous issues identified have progressed sufficiently for them to be considered medium risk at this stage.</p> <p>No new issues have been identified during the period.</p>	Medium

2. OTHER ASSURANCE WORK COMPLETED OR IN PROGRESS:

DIRECTORATE	AUDIT	LEVEL OF RISK	Report Issue Date:	COMMENTS
People	Formula Financing for Schools	Moderate	May 2014	
People	3 x Primary Schools	Moderate/Minimal	July 2014	
People	SFVS Returns collation.	Minimal	May 2014	
B Change	Northgate System IT Review	Moderate	May 2014	
NH	Housing Management System – ICT	Of concern*	Jun 2014	*However, there are plans to replace this system which provide the opportunity to ensure control requirements going forward are specified.
B Change	Exempt Accommodation	In Progress		Draft report issued – awaiting management confirmation of agreement to recommendations. Predominantly vetting procedures have now been improved and are robust.
People	Schools/Nurseries x 3	In Progress		
People	Independent Living Service – Aids and Adaptations	In Progress		
Place	Markets Operation – monitoring of progress	On going		

Grants Certified or in progress

DIRECTORATE	Grant	LEVEL OF RISK	Certificate Issue Date:	COMMENTS
Place	Better Bus Area Fund 1	Minimal	July 2014	Minimal grant conditions to meet.
NH	Scambusters Grant	Moderate	July 2014	Level of risk reflective of the complexity of the grant funding requirements.
People	Troubled Families Initiative	Moderate	May 2014	Level of risk reflective of the complexity of the grant funding requirements and lack of guidance from funding provider on proving objectives have been

DIRECTORATE	Grant	LEVEL OF RISK	Certificate Issue Date:	COMMENTS
				met.
City Director	Carbon Efficiency 2013/14	Moderate	July 2014	Level of risk reflective of the complex calculation method of the tax payable by the Council based on its energy consumption levels. The calculation is made more complex by the need to get data from external bodies e.g. Academies.
People	Care Bill Implementation Grant	Minimal	June 2014	
Place	LSTF Grant Claim	Minimal	May 2014	

3. FRAUD AND VALUE FOR MONEY WORK COMPLETED OR IN PROGRESS:

3.1 Pro Active Fraud Programme:

DIRECTORATE	TESTING AREA	STATUS	COMMENTS
NH	Tenancy Fraud Initiative	In Progress	This proactive initiative continues to yield good results for the Council with 12 properties recovered so far this year.
Corp	National Fraud Initiative	In Progress	Download of data sets in line with Audit Commission timetable for this mandatory data matching exercise.
NH	Homelessness review + testing	In Progress	Audit of controls and direct fraud testing in progress
Corp	Invoice and Supplier duplicates	In Progress	Testing of duplicate suppliers and invoices has continued through the period and the output passed back to Finance to recover overpayments. This process should be replaced with alternative arrangements going forward and Internal Audit involvement in this process will revert to independent internal audit testing of these arrangements.
BC	NNDR Fraud Testing	In Progress	Proactive work to determine if the Council has experienced NNDR fraud.
Corp	Annual Fraud Survey	Complete	This is a national survey of <u>proven fraud</u> across local authorities, the results of which are used to inform national studies on

DIRECTORATE	TESTING AREA	STATUS	COMMENTS
			fraud. Completion of the survey for 2013/14 demonstrated that the significant fraud risks against the Council continue to be housing benefit, tenancy and local taxation discount fraud. For all of these areas, the Council has strong proactive fraud work programmes in place to tackle these issues. Other cases of proven fraud included contractor fraud, social care fraud and blue badge.

In addition to the above, the DCLG has now released details of some £16m of funding it will make available to Local Authorities to help them tackle fraud over the next two years. Work has commenced in this period to research the process and criteria for 'bidding' for a share of this funding and identifying innovative projects which meet the funding criteria for a successful bid before the bid deadline in early September. It is anticipated that funding for successful bids will be released in October 2014.

3.2 Re-active Fraud Work

New cases referred during the period

At the start of the period, the Investigations team were dealing with 25 'live' fraud referrals which were in various stages of investigation. During the period, 15 new referrals have been received by the team and 6 cases have been closed. Of the new referrals, an analysis of the fraud/irregularity type is provided to the right. Of the 6 cases closed, 1 case has resulted in the removal of local taxation charitable relief of circa £3k, the right to remain/work of a Council employee has now been confirmed, in 2 cases advice was provided to relevant service managers to progress their investigations and 2 cases have identified breakdown in control which have been reported and improvement recommendations made. In the latter, the breakdown in controls contributed to a theft of cash of £800 which could not be attributed to anybody for further action. In the other case, an error highlighted a breakdown in a financial validation process.

<u>Irregularity Type</u>	<u>No of cases</u>
Schools – Cash/Income	3
Procurement	2
Blue Badge	2
Cash Discrepancy	1
Benefits	1
Direct Payments	1
Tenancy	1
Local Taxation	1
Identity	1
Credit Card	1
Anti-Trafficking Programme	1
Total	15

4. RISK MANAGEMENT:

Co-ordinated by Internal Audit, the Corporate Risk Register and Strategic Risk Management approach has been extensively reviewed with the Strategic and Extended Leadership Teams. The results of this work, together with a fully reviewed and refreshed Corporate Risk Register were presented to the Audit Committee at their meeting on 11th July 2014. Work will need to continue to ensure that risk management is progressed and developed with senior management once resource is confirmed and secured to deliver this.

5. INTERNAL AUDIT PERFORMANCE PERIOD 1:

5.1 To ensure the continued effectiveness of the Internal Audit Service, a suite of performance indicators are monitored and results for period 1 are detailed below:

<u>Value for Money Indicators</u>	Annual Target 14/15	Period 1 Target:	Period 1 Actual:	Previous Year Actual:
<i>% of Audit Reviews reported within target days from commencement of work (3x number of days for audit review)</i>	90%	90%	45.5%	N/A
<i>High/Medium recommendations Implemented or Escalated</i>	90%	35%	37%	44%
<i>No. of Properties recovered by tenancy fraud work.</i>	40	10	12	5
<i>% of planned Statutory Assurance work completed/in progress/not required by auditee against plan</i>	90%	15%	33%	N/A
<i>% of planned statutory assurance days completed against plan</i>	90%	25%	24.16%	N/A
<i>% of QAQs with a score of 4 or more</i>	95%	95%	100%	90%
<i>External Audit Opinion on Internal Audit (Annual Indicator)</i>	Positive	N/A	N/A	Positive
<i>% of planned follow-up work completed/in progress within protocol timescale.</i>	90%	90%	33%	80%
<i>Audit cost per £1M gross turnover (Annual Target)</i>	Comparable to other comparator groups	N/A	N/A	N/A

The Internal Audit Team have met or exceeded most of its performance targets in period 1 which were set with an anticipated limitation of resource during this time of change in mind.

Issues concerning the turnaround time of audits has been affected by both resources available and some carried forward performance issues which have now been resolved. This is a new indicator for us to monitor the time taken between our first contact with our customer (the Terms of Reference for the Audit

review) and when we first report our findings and recommendations for discussion (draft report stage). Monitoring this outturn will help us target areas where the turnaround time on audit reviews is unacceptable and we can then look for ways to improve the situation.

The level of follow-up work is low due to two changes to our process which is not yet reflected in the performance measure:

- where there are a number of issues identified during a review we will endeavour to interim report those issues giving the service time to implement the recommendations as soon as possible in order to improve the control environment in an efficient manner and reduce the need for follow up.
- where the current change programme has impacted on the area under review and as such to complete a follow-up would mean starting almost from scratch, we have scheduled a full review in the current plan. The review will pick up any recommendations from the previous review that are still relevant.

Financial/HR Resource

Our spend remains well within our structure budget as we are currently operating at 60% capacity and will continue to do so until the Corporate restructure has been completed.

The Audit plan is constantly under review and where a need is identified which exceeds our current capacity, permission will be sought to engage temporary external resource.

FINANCE - INTERNAL AUDIT TEAM

