

BRISTOL CITY COUNCIL
AUDIT COMMITTEE
16th January 2015

Report of: Chief Internal Auditor

Report Title: Internal Audit Periodic Report – Period 2
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 this Internal Audit periodic update report which together with Appendix A provides details of Internal Audit work for period 1st April to 30th November 2014.

SUMMARY

Internal Audit now provides periodic update reports rather than quarterly to ensure the Committees updates are timely. This is the second of our three planned update reports, which provide details of the status of the Council's control environment and Internal Audit's performance.

This report has been considered by the Cabinet Member for Finance and Resources.

SIGNIFICANT ISSUES IN THE REPORT ARE:

- Key messages from work to date (paragraph 3 & Appendix A section 1)
- The Control Environment overall (paragraph 2)
- Internal Audit Performance (paragraph 6 & Appendix A section 3)

Policy

There are no new policy implications arising from this report

Consultation:

Internal: None necessary

External: None necessary

1. Background and Context

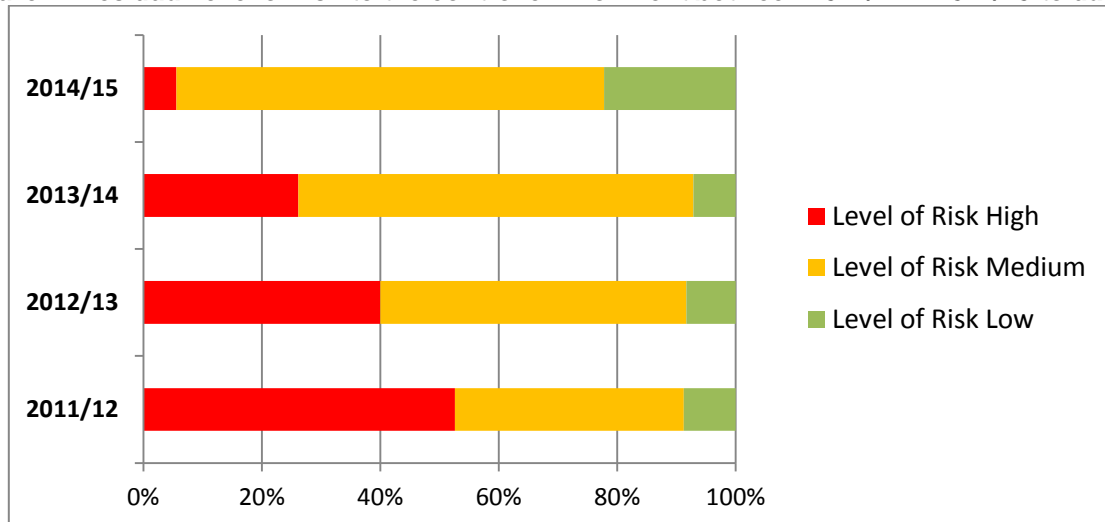
1.1 As part of the Internal Audit Service review, we are continually looking for ways to improve our method of publishing the assurance we provide to both management and Members to ensure they receive the maximum assurance from the results of our work. In this report, we have provided a more holistic picture of the Council's Risk and Control environment performance as well as the performance of the Internal Audit Service. This report is provided to:

- present an holistic picture of the control and risk environment within the council, based on areas covered by Internal Audit this year to date, but with trend comparison from the past 3 years.
- 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 fit for purpose.

2. The Control Environment

2.1 The Council's internal control environment has shown steady improvement over the past 2 years. A year on year analysis of the conclusions drawn from internal audit work concerning levels of risk clearly demonstrates the positive direction of travel within the control environment with increased improvement evident in the first half of this year. Figure 1 below is a graphical presentation of the conclusions from Internal Audit reviews completed demonstrated as a percentage of total reviews completed:

Figure 1: Residual level of risk to the control environment between 2011/12 – 2014/15 to date



2.2 The numbers of reviews concluding medium risk (rather than low risk) is explained in part by Internal Audit's risk based audit approach. This means the service is targeting the higher risk systems to review or reviewing areas where

we know control improvements are required and the Council is working to ensure these improvements fully embed. Additionally, the Council is continuing to make changes to its staffing and operational structures which in itself presents risks to the control environment.

- 2.3 There have been a number of factors which have supported this improvement including the strong leadership support provided by the current Strategic Leadership Team (SLT), Senior Officers and Members. Additionally, Internal Audit has continued to make full use of interim reporting, which allows the service manager time to implement recommendations quickly within an agreed timescale before the Audit opinion and level of residual risk are reported. This has resulted in rapid improvements in the control environment under review and a decrease in the number of areas of high residual risk.
- 2.4 Additionally, improvements in the corporate risk management arrangements now provide assurance that senior officers understand the longer term risks facing the Council and how they are managed. The recent review of the Corporate Risk Register (reported separately to this committee) demonstrated generally good progress in implementing the action plans which again provides positive assurance on the risk and control arrangements at strategic level. Additionally, the level of 'challenge' to the risk information provided has improved.
- 2.5 However, the Council must not become complacent in light of these improvements. There remains a body of work to be completed before the level of risk can truly be considered acceptable. Internal Audit work has in recent years concentrated on the very high risk areas within the nucleus of the Council's functions or areas where demand has dictated a need. Services and functions outside of this nucleus have not received Internal Audit attention for some time and have all been subject to review themselves and as such it is not clear what issues may emerge when we start to review these areas in 2015/16 and going forward. It is anticipated that the level of risk may well stagnate or even recede for a time while any required remedial action takes effect.

3. Key Messages from the Work Completed During 2014/15 to Date:

- 3.1 The attached Appendix A provides details of internal Audit work completed, in progress and planned and where appropriate, the conclusion on each of the control and governance frameworks reviewed.
- 3.2 Section 1 of the report provides an update on progress in key risk areas previously identified as contributing to the high level of risk within the Council. All of these areas have demonstrated a good level of improvement, however, further work is still required before the risks can be fully addressed and as such the level of risk remains at **Medium**.
- 3.3 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.

- 3.4 Section 3 provides an overview of the planned proactive fraud work completed or in progress.
- 3.4 Taking into consideration the results of work we have completed, our overall opinion on the level of risk remains at '**Medium**' following this period; this is supported by our statistical analysis illustrated by figure 1 above. At this time, whilst there are areas we are aware of where controls remain in need of improvement, management is responding positively to our observations and there are no significant issues requiring Audit Committee intervention.

4. Fraud and Value for Money Work

- 4.1 The Committee is receiving its Annual Fraud Update at this meeting which includes details of the main fraud risks faced by the Council and how we are responding to them.

5. Risk Management

- 5.1 The Committee received the Annual Report on Risk Management at its November 2014 meeting, together with a revised Action Plan for the risk management work going forward.
- 5.2 The majority of Internal Audit work in the intervening time has been the update of the Corporate Risk Register(CRR), which the Committee is receiving at this meeting. Now the first review of the revised Corporate Risk Register has been completed, work will focus on development of the Directorate Risk Registers, with the view of bringing them in line with the CRR risk matrix and ensuring the focus within Directorates is consistent.
- 5.3 We have already seen evidence that Services and Directorates are working on their respective Registers and there is a clearer understanding developing of the importance of Risk Management and the need to incorporate it into our business as usual routine.

6. Internal Audit Performance

- 6.1 Section 3 of appendix A presents performance against targets for the Team during the period. The Team have met or exceeded most of its performance targets in period 2 which were set with an anticipated limitation of resource during this time of change.
- 6.2 The issue concerning turnaround time has improved slightly and work continues in this area to address the need for more efficient outturn of audit reviews. However, as previously stated the performance has been affected by performance issues which have now been addressed and as such if we remove those reviews for the equation the actual turnover figure would read 61.5% which is a considerable improvement. Some delay in turnaround is to be expected with the number of new staff we have and the time taken for them to become familiar with the Council's services.

- 6.3 The level of follow-up work remains low due to our change in approach to using interim reporting to reduce the amount of formal follow up required (as explained in paragraph 2.3 above). Plans are in place to review our Follow-up protocol in order to ensure it is more reflective of the process we use now.
- 6.4 All other performance indicators are above target which ensures that we are well on our way to achieving our plan for the year.

7. Resources

- 7.1 Recruitment to our final structure has progressed with the addition of two Investigators to our Corporate Fraud team, two Auditors to our Assurance team and an apprentice who will gain experience in both teams. Vacancies remain at both Management and Auditor level and work is ongoing to ensure all vacancies are appropriately addressed by the financial year end, so that the service is fully resourced for 2015/16 onwards. A temporary resource has been agreed by the People Panel to fulfil any void in our resource needs over the next few months to ensure the Audit plan is delivered. All costs will remain within our structure budget.
- 7.2 A study of options available for delivery of the Internal Audit Service has been finalised which considered the risks and benefits of three alternative delivery models: an in house service, a partnership arrangement and an outsourced service. Following senior management consideration, it has been agreed that the favoured option is for the Internal Audit Service to remain in-house and as such the Council has undertaken to ensure the Service is sufficiently resourced and skilled going forward. Additionally, as the Council's Control, Risk and Governance environment improves, the Service will be exploring the potential to sell its services outside of the Council, thereby maintaining the skills capacity, but at a lesser cost to the 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 A -Internal Audit Update Report for Period Ending 30th November 2014

LOCAL GOVERNMENT ACCESS TO INFORMATION

INTERNAL AUDIT UPDATE REPORT FOR PERIOD 2: 1st April to end November 2014

1. UPDATE OF WORK COMPLETED IN KEY RISK AREAS:

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
<u>Financial Governance/ Control:</u>	<p>Internal Audit work in this area has been limited so far this 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 (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. • ABW ICT Security – Following an interim report and the implementation of Audit recommendations, the review has now concluded as Satisfactory with Moderate level of risk. • Bank Reconciliation and Income Management– Initial audit work in this area is complete and there are good indications that the process for full reconciliations is in place. Further work in this area will be completed in the last quarter of the year to confirm that the processes are sufficiently embedded. • Accounts Receivable – an interim report has been issued in this area, which has identified a number of areas in need of improvement. Recommendations are currently being reviewed by Finance with a view to implementation. The progress of remedial action will be followed up in the final quarter of this financial year as part of our planned coverage as detailed below. • A review of Payroll Leavers is currently in progress. Review to focus on process in place to ensure leavers are actioned promptly and overpayments minimised. <p>The following reviews are planned for the last quarter of the financial year in order to ensure processes have embedded and become business as usual:</p> <ul style="list-style-type: none"> • Budgetary Control 2014/15 • Accounts Receivable • Ordering and Payments • BACS System • Housing Rents • Local Tax and Business Rates <p>Additionally, Internal Audit will be inputting to the review of the Financial Regulations planned for the last quarter of</p>	Medium

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
	the financial year.	
<u>Procurement:</u>	<ul style="list-style-type: none"> • Building Practice (Electrical) – follow up. Complete – Moderate risk level • CCTV Contract – follow up. Complete – Moderate risk level <p>A number of themed audit reviews are in progress at this time. They include:</p> <ul style="list-style-type: none"> • Contracts where payments are made in advance – in progress • Contract Monitoring – a Control Risk Self-Assessment (CRSA) process is under development and will be undertaken in this area in order to identify both good and no so good practice. This approach will allow for greater numbers of contracts to be reviewed, thereby providing a more holistic picture of contract monitoring within the council. This work is currently in progress. <p>Aspects of the procurement regulations (thresholds and waivers) are currently being reviewed by the Corporate Commissioning and Procurement Team (CCPT) following their concerns regarding increased numbers of waivers (often retrospective) being authorised and government procurement reform developments. A report is due to be presented to SLT by the CCPT in the new year concerning this and Internal Audit are advising on the proposed changes to ensure they appropriately consider the risk around procurement fraud. Internal Audit have issued an 'issues note' requesting regularisation regarding one waiver which highlighted a breakdown in control in the waiver authorisation process.</p> <p>Additionally, the following themed reviews are planned for the latter end of this financial year:</p> <ul style="list-style-type: none"> • Tendering • Strategic Commissioning • Procurement Cards 	Medium
<u>Implementation of Recommendations:</u>	Interim Reporting, which allows the customer time to implement the recommendations quickly wherever possible within an agreed period of time, has been utilised on all reviews where issues have been identified. This has resulted in more efficient and effective improvements to the control environment with limited delay. This enhances buy-in from managers and has a positive impact on the overall control environment and level of Audit Opinion (<i>as detailed in figure 1 in the main report</i>). However, some delay is still being experienced in actioning remedial action despite interim reporting; therefore the level of risk remains at Medium until this procedure has fully embedded.	Medium
<u>AGS Issues.</u>	Work on the AGS Action Plan is currently underway with an update report planned for mid-February 2015. Monitoring is taking place in tandem with the Corporate Risk Register update in order to avoid duplication where possible. Early indications are that one or two targets have slipped and as such the level of risk remains at medium.	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	SFVS Returns collation.	Minimal	May 2014	
B Change	Northgate System IT Review	Moderate	May 2014	
NH	Housing Management System – ICT	Of concern*	Jun 2014	*As this system is scheduled to be replaced, the focus will be on ensuring the new system addresses the issues identified.
People	3 x Primary Schools	Moderate/Minimal	July 2014	
B Change	Exempt Accommodation	Moderate	Sep 2014	
People	CCTV Contract – Follow-up	Moderate	August 2014	
People	Nursery/Children's Centre x 1	Of Concern	October 2014	Poor financial controls.
People	3 x Primary Schools	Moderate	Nov 2014	
People	Trading With Schools	In Progress		Review of the Function
People	Primary Schools x 6	In Progress		
People	Nursery/Children's Centre x 1	In Progress		
People	Independent Living Service – Aids and Adaptations	In Progress		
B Change	HR- New IT System	In Progress		Project review and support
Corporate	Information Security	In Progress		A Council-wide review of Information Security
NH	Public Health	In Progress		Analytical review
People	Protocol System	In Progress		IT system Review
Corporate	Business Continuity Planning/Disaster Recovery	In Progress		Governance Review
Corporate	Hospitality Registers and Declarations of interest	In Progress		Governance Review
Place	Markets Operation – monitoring of progress	On going		Audit Issues note (June 2014) . Report to be provided to Audit Committee.
B Change	Registrars Office	In Progress		Financial Review

Grants Certified or in progress

DIRECTORATE	Grant	LEVEL OF RISK	Certificate Issue Date:	COMMENTS
Place	LSTF Grant Claim	Minimal	May 2014	
People	Troubled Families Initiative	Moderate	May 2014 Aug 2014	Satisfactory certification for this Complex Criteria. Work is currently underway to determine the requirements for auditing the grant going forward.
People	Care Bill Implementation Grant	Minimal	June 2014	
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.
City Director	Carbon Efficiency 2013/14	Moderate	July 2014	Further required in the last quarter of 2014/15, in reparation for the 2014/15 Certificate
City Director	Gigabit Grant	Moderate	August 2014	Level of risk reflective of the complexity of the grant funding requirements.
Place	Cycling Ambition Fund	In Progress		

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. Refer to Fraud Update report for details.
Corp	National Fraud Initiative	In Progress	Refer to Fraud Update report for details
NH	Homelessness review + testing	In Progress	Audit of controls and direct fraud testing in progress
Corp	Invoice and Supplier duplicates	On going	Working with Finance until permanent solution procured.
BC	NNDR Fraud Testing	In Progress	Proactive work to determine if the Council has experienced NNDR fraud.
Corp	Data-matching/warehousing	In progress	Researching how the Council can best utilise the information it has available to it in fraud prevention and detection.

DIRECTORATE	TESTING AREA	STATUS	COMMENTS
Corp	Debtors to creditors comparison	In progress	Value for money analytical review.
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 fraud.
Corp	Transparency Code Compliance	In Progress	To ensure the Council is compliant with the new Transparency Code in publication of annual fraud statistics. (Effective January 2015)
Corp	Advice and support work: <ul style="list-style-type: none"> Fraud prevention advice Fraud Warning Bulletins 'Tell us Once' re deaths registration 	As required	Ad hoc advice and support for managers across the Council.

3.2 Re-active Fraud Work:

Details of fraud referrals received by the team are provided in the Annual Fraud Update which is also being considered by the Audit Committee at this meeting. However, where investigations have been carried out, the team also highlight control weaknesses for remedial action by the Council. 'Audit Issues Notes' have been provided in the following areas during this period:

- Telephone Bills Monitoring
- Scan-coin Reconciliations

4. INTERNAL AUDIT PERFORMANCE PERIOD 2:

4.1 To ensure the continued effectiveness of the Internal Audit Service, a suite of performance indicators are monitored and results for period 2 are detailed below:

<u>Value for Money Indicators</u>	Annual Target 14/15	Period 2 Target	Period 2 Actual	Period 1 Actual:	Previous Year Actual:

<u>Value for Money Indicators</u>	Annual Target 14/15	Period 2 Target	Period 2 Actual	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%	47.62%	45.5%	N/A
<i>High/Medium recommendations Implemented or Escalated</i>	90%	65%	65%	37%	44%
<i>No. of Properties recovered by tenancy fraud work.</i>	35	18	21	12	39
<i>% of planned Statutory Assurance work completed/in progress/not required by auditee against plan</i>	90%	40%	42.2%	33%	N/A
<i>% of planned statutory assurance days completed against plan</i>	90%	35%	48%	24.16%	N/A
<i>% of QAQs with a score of 4 or more</i>	95%	95%	100%	100%	90%
<i>External Audit Opinion on Internal Audit (Annual Indicator)</i>	Positive	N/A	N/A	N/A	Positive
<i>% of planned follow-up work completed/in progress within protocol timescale.</i>	90%	90%	33%	33%	80%
<i>Audit cost per £1M gross turnover (Annual Target)</i>	Comparable to other comparator groups	N/A	N/A	N/A	N/A