

BRISTOL CITY COUNCIL
AUDIT COMMITTEE
24th April 2015

Report of: Chief Internal Auditor

Report Title: Internal Audit Periodic Report – Period 3
Ward: Citywide

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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 2014 to 28th February 2015.

SUMMARY

Internal Audit now provides periodic update reports rather than quarterly to ensure the Committees updates are timely. This is the final of our three planned update reports, which provide details of the status of the Council's control environment and Internal Audit's performance. An annual report will be provided to the Committee at its June 2015 meeting.

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 2 & Appendix A section 1&2)
- Internal Audit Performance (paragraph 6 & Appendix A section 4)

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. As this report is the final in the series before we provide our annual report which gives an overall view of the Control, Risk and Governance environment during 2014/15, we have kept this report brief, highlighting the key findings the Committee need to be aware of prior to receiving our full annual report. This 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 and/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. Key Messages from the Work Completed During 2014/15 to Date:

- 2.1 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 within the Council's Control, Risk and Governance environment remains at **Medium**. 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.
- 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. However, there were a small number of areas where the level of risk is '**Of Concern**' and we will be working with management to ensure the issues identified in these areas are efficiently and effectively resolved.
- 3.4 Section 3 provides an overview of the planned proactive fraud work completed or in progress.

4. Fraud and Value for Money Work

- 4.1 A number of referrals have continued to be received by the Corporate Investigations Team, as detailed in section 3 of Appendix A. Areas of particular concern, as highlighted by the summary of referrals at section 3.2 of

Appendix A are:

- Procurement
- Direct payments
- Schools Cash/Income

- 4.2 Each of these areas are recognised as being at high risk of fraudulent activity and as such further pro-active fraud/analytical work has been scheduled into our Fraud plan for 2015/16. Specifically, we plan to roll out a fraud health check programme and fraud awareness training for schools and our Assurance team continue to work with schools to ensure their handling of cash both in terms of official and unofficial funds, is appropriately accounted for and secure from mis-appropriation. We will also extend the work we have started on Direct Payment controls into 2015/16 and procurement analytics and analysis will also inform further work in this area as the year progresses.
- 4.3 It should be noted that not all referrals received are of a fraudulent nature and in many cases the issue is purely an irregularity in the control and/or accounting environment. As such many cases which are reported to us are efficiently and effectively resolved with a preliminary review and subsequent advice on control matters. Our investigation protocol, which calls for a preliminary risk review greatly assists in prioritising referrals received, allowing us to put greater resource into the cases where issues other than a simple irregularity may exist.

5. Risk Management

- 5.1 The majority of Internal Audit's recent work in this area has concentrated on the update of the Corporate Risk Register (CRR), which the Committee received twice this year. However, work has commenced on the 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.
- 5.2 Directorate Leadership Teams have met to consider their Directorate risks and formal documentation of this work into fuller Directorate Risk Registers is progressing in line with available resource. A clear timetable for completion of this work has been agreed by SLT and it is anticipated that all risk registers will be ready for scrutiny review by the Directorate Scrutiny Commission early in the new municipal year when the scrutiny commission dates have been set.
- 5.3 To ensure that performance and risk information is better integrated, in future it is planned that risk registers reviews will be aligned to performance reporting at DLT's. There is an already established quarterly reporting regime for performance reports which will also be followed for risk register review. This will enhance the opportunity for challenge of the information presented and ensure that risk registers are ready to be presented to Directorate Scrutiny Commissions – again at the same meetings as the Directorate Performance Information is presented.

6. Internal Audit Performance

- 6.1 Section 4 of Appendix A presents performance against targets for the Team during the period. The Team has met or exceeded a number of its targets which were set in the anticipation that the Team would be fully resourced during this period. It is pleasing to note that the Team have continued to exceed the projected level of coverage year to date, despite recruitment not have progressed as quickly as hoped.
- 6.2 The issue concerning turnaround time has further improved and work continues in this area to address the need for more efficient outturn of audit reviews. With many new staff and reduced resources some delay in turnaround is to be expected. Additionally turnaround is often effected by the turnover of staff within the area under review, this is particularly relevant currently while many services are reassigning work areas in line with their re-design as well as recruiting to their full establishment.
- 6.3 The level of follow-up work has improved, however with the level of change currently; follow up has in some cases been delayed by mutual agreement with our customers in order to allow time for the changes to take effect. This process whilst more effective for the customer, does have an impact on our performance target. Plans are in place to review our Follow-up protocol in order to ensure it is more reflective of the interim reporting process we use now and to take into account where delaying follow up is the more effective solution.
- 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 rather more slowly than we anticipated, however we can confirm that we have appointed an Audit Assistant to our Assurance team. Vacancies remain at both Management and Auditor level and work is ongoing to ensure all vacancies are appropriately addressed. We have been fortunate enough to have benefited from additional resource for 8 months from the Council's Graduate Management Scheme which has lessened the impact of our vacancies. We had hoped to have our full structure in place by 1st April 2015, but that has not been possible. We do however envisage that our service will be up to full strength by end May 2015. Approval for temporary resource will be sought from 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.

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 28th February 2015

LOCAL GOVERNMENT ACCESS TO INFORMATION

INTERNAL AUDIT UPDATE REPORT FOR PERIOD 3: 1st April 2014 to end February 2015

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 is nearing completion with a full round of financial reviews either complete or in progress. Work undertaken during the year which is either complete or in progress is as follows:</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–Follow up work in this area is currently in progress to confirm that the processes are sufficiently embedded, following an interim report issued earlier in the year. • Accounts Receivable – an interim report had been issued in this area, which identified a number of areas in need of improvement. Recommendations were reviewed by Finance with a view to implementation, the progress of which is currently under review. • A review of Payroll Leavers is nearing completion with an audit opinion of Satisfactory and a residual level of risk of Moderate. The review focussed on ensuring the accuracy of severance payments following the corporate restructure and the process in place to ensure leavers are actioned promptly and overpayments minimised. Regarding the latter, an improvement compared to previous years was seen. • Local Tax and Business Rates – work in this area is now complete with an audit opinion of Satisfactory and a residual level of risk of Moderate, minor weaknesses were identified in staff authorisation levels and random checking. Recommendations made will improve the control framework in this area. <p>The following reviews are currently at the testing stage and as such it is too early to project the Audit Opinion and residual level of risk:</p> <ul style="list-style-type: none"> • BACs system • Ordering and Payments (creditors) • Budgetary Control 2014/15 • Housing Rents 	Medium

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
	<p>These areas are key to determining the overall risk level for Financial Governance for the year and as such the current risk level will remain until this work has been completed.</p> <p>Additionally, Internal Audit are involved in an advisory capacity, in the current project to add Human Resources and Payroll to the existing ABW system as it is imperative that this module is incorporated without compromising the governance framework within the Financial systems.</p>	
<u>Procurement:</u>	<p>Reviews concluded in this area:</p> <ul style="list-style-type: none"> • Building Practice (Electrical) – follow up. Complete – Moderate risk level • CCTV Contract – follow up. Complete – Moderate risk level • Contracts where payments are made in advance – Complete with an Audit opinion of Needs Improvement and a residual level of risk of 'Of Concern'. <p>Reviews currently in progress:</p> <ul style="list-style-type: none"> • Contract Monitoring <p>Ad- hoc work carried out during the year to date:</p> <ul style="list-style-type: none"> • Input to Procurement Regulations review which identified an issue with the use of Waivers – this area will be subject to an Internal Audit review in 2015/16 • Input to review of a major contract management • Independent mediator in an issue regarding contract payment matters. <p>Due to issues identified both in our planned work and ad-hoc work the level of risk in this are currently remains at Medium.</p>	Medium
<u>Implementation of Recommendations:</u>	<p>Implementation of Audit recommendations continues to demonstrate a positive direction of travel. This is particularly evident in the response to our School audit reviews where recommendations are positively acknowledged and in many cases implemented immediately. Internal Audit continues to receive valuable support from individual Strategic Directors' and the Strategic Leadership Team as a whole in its objective to improve the control, risk and governance environment council wide. There are however areas which continue to need support with implementing recommendations efficiently and effectively and as such the current level of risk is Medium/Low</p>	Medium/Low
<u>AGS Issues.</u>	A report on the progress of the AGS Action Plan was considered by the Audit Committee at its March 2015 meeting.	Medium

Key Risk Area	PROGRESS	RESIDUAL RISK LEVEL
	<p>The update encompassed the status of actions as at 28th February 2015. The review identified that a number of issues which although currently considered medium risk were however moving rapidly towards a low level of risk. There was a number of issues where the level of risk had not changed due to either the action due date not having been reached or although action had been progressing it had not yet progressed sufficiently to reduce the risk.</p> <p>Overall the direction of travel is good, but as yet is not sufficient to reduce the overall risk from the current level of Medium.</p>	

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	Satisfactory opinion but the level of risk is reflective of value.
People	SFVS Returns collation.	Minimal	May 2014	
B Change	Northgate System IT Review (Revenues and Benefits)	Moderate	May 2014	Satisfactory opinion but the level of risk is reflective of value.
NH	Housing Management System – ICT	Of concern*	Jun 2014	*This system is scheduled to be replaced. As such, it is important to ensure the new system addresses the control issues identified regarding access controls/ authority levels and management information requirements.
People	3 x Primary Schools	Moderate/Minimal	July 2014	
B Change	Exempt Accommodation	Moderate	Sep 2014	Control improvements re vetting of new claimants
People	Nursery/Children’s Centre x 1	Of Concern	October 2014	Poor financial controls.
People	3 x Primary Schools	Moderate	Nov 2014	
People	7 x Primary Schools	Moderate	Dec 14 – Feb 15	Five of the seven schools had a ‘Needs Improvement’ Audit opinion mainly due to financial control issues.
People	Pupil Referral Unit x 1	Moderate	December	Satisfactory progress made in addressing historically

DIRECTORATE	AUDIT	LEVEL OF RISK	Report Issue Date:	COMMENTS
			2014	inadequate financial controls.
Corporate	Review of Radio Licences	Minimal	Dec 2014	
Corporate	Officer Declarations of Interest (1 st – 3 rd Tier)	Moderate	Dec 2014	Issues initially identified have now been resolved.
Corporate	Information Security Review	Of Concern	Feb 2015	Logical access control issues and security incident response issues.
NH	Public Health – Analytical Review	Complete	N/A	To scope future work.
B Change	HR – New IT System	In Progress		Consultancy on Specification/implementation
People	Trading With Schools	In progress		
People	Independent Living Service – Aids and Adaptions	In Progress		
B Change	Mobile device security	In Progress		
People	LiquidLogic System	In Progress		
B Change	Change Programme – Governance Review	Moderate	In draft	Good level of assurance re programme governance. (Benefits realisation not within scope of this review).
Corporate	Business Continuity Planning/Disaster Recovery	In Progress		
Corporate	Hospitality Registers and Declarations of Interest	In Progress		
People	Special Nursery x 1	In Progress		
People	Early Years Centre x 1	In Progress		
Chief Exec.	Partner Company Review x2	In Progress		
Place	CIL/S106 Monies	In Progress		
B Change	Registrar's Office – Financial Review	In Progress		

Grants Certified or in progress

DIRECTORATE	Grant	LEVEL OF RISK	Certificate Issue Date:	COMMENTS
Place	LSTF Grant Claim	Minimal	May 2014	

DIRECTORATE	Grant	LEVEL OF RISK	Certificate Issue Date:	COMMENTS
People	Troubled Families Initiative	Moderate	May 2014 Aug 2014	Satisfactory certification for this Complex Criteria.
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 preparation 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	Minimal	February 2015	
People	Troubled Families Initiative	Moderate	January 2015	Successful certification, but level of risk is reflective of the complexity of the grant conditions.

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	Proactive exercises and responding to referrals continues to yield good results from this initiative. 38 properties recovered to date in this financial year.
Corp	National Fraud Initiative	In Progress	Output received and currently being reviewed. Housing Register data also submitted for pilot exercise.
NH	Homelessness review + testing	In Progress	Audit of controls and direct fraud testing in progress
Corp	Invoice and Supplier duplicates	On going	Fiscal solution procured. Further work will review the effectiveness of the solution.
BC	NNDR Fraud Testing	In	Proactive work to determine if the Council has experienced

DIRECTORATE	TESTING AREA	STATUS	COMMENTS
		Progress	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.
Corp	Debtors to creditors comparison	In progress	Value for money analytical review.
Place	Parking Income Analysis	In Progress	Reconciliation process revised.
Corporate	Whistleblowing – Compliance with best practice	Complete	Issues re co-ordination, recording and governance arrangements reported to Monitoring Officer.
B Change	Corporate Commissioning and Procurement	Complete	Urgent Issues Note concerning non-compliance with procurement regulations provided.
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	Complete	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:

Since the beginning of the financial year the Corporate Investigations Team has received 28 new cases, together with a number of 'live' cases carried forward to the previous financial year. Of those 28 cases, 11 are currently 'live, with the residual having been investigated and closed. An analysis of fraud/irregularity type of the referrals received this year is provided on the right. Of the 17 cases closed, a preliminary review confirmed further investigation was not required in 5 cases, advisory guidance was provided in order to strengthen the control environment in 8 cases and the matter was referred on to either other Council's or agencies such as Police in 4 cases. Additionally, a review of the Council's Corporate Telephone Bill monitoring identified an issue with Ceased Number Announcements which are set up when a Council allocated phone is no longer in use. These messages had not always been cancelled and as such the Council continued to be charged for them. Action by Internal Audit resulted in stoppage of ongoing payments which had cost the Council **£38k** per annum.

<u>Irregularity Type</u>	<u>No of cases</u>
Schools – Cash/Income	3
Procurement	5
Blue Badge	2
Cash Discrepancy	2
Benefits	2
Direct Payments	3
Tenancy	1
Local Taxation	2
Identity	1
Credit Card	1
Anti-Trafficking Programme	1
Council assets	2
HR Matters	2
Cheque Fraud	1
Total	28

4. INTERNAL AUDIT PERFORMANCE PERIOD 3:

4.1 To ensure the continued effectiveness of the Internal Audit Service, a suite of performance indicators are monitored and results for period 3 are detailed below:

<u>Value for Money Indicators</u>	Annual Target 14/15	Period 3 Actual	Quarter 3 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%	60%	90%	47.62%	45.5%	N/A
<i>High/Medium recommendations Implemented or Escalated</i>	90%	71%	80%	65%	37%	44%
<i>No. of Properties recovered by tenancy fraud work.</i>	35	38	26	21	12	39
<i>% of planned Statutory Assurance work completed/in progress/not required by auditee against plan</i>	90%	84%	70%	42.2%	33%	N/A
<i>% of planned statutory assurance days completed against plan</i>	90%	106%	70%	48%	24.16%	N/A

<u>Value for Money Indicators</u>	Annual Target 14/15	Period 3 Actual	Quarter 3 Target	Period 2 Actual	Period 1 Actual:	Previous Year Actual:
<i>% of QAQs with a score of 4 or more</i>	95%	96%	95%	100%	100%	90%
<i>% of planned follow-up work completed/in progress within protocol timescale.</i>	90%	60%	90%	33%	33%	80%
<i>External Audit Opinion on Internal Audit (Annual Indicator)</i>	Positive	N/A	N/A	N/A	N/A	Positive