

**Bristol City Council  
Audit Committee  
27 November 2015**

**Report of:** Chief Internal Auditor

**Report Title:** Internal Audit Half-Year Report 2015/16

**Ward:** Citywide

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

**Contract Telephone Number:** 0117 92 22063/22448

**RECOMMENDATION**

The Committee is recommended to note and comment on the attached Internal Audit half-year report which provides details of Internal Audit work for period 1<sup>st</sup> April to 30<sup>th</sup> September 2015.

This report was presented to the Deputy Mayor on 11<sup>th</sup> November 2015.

**SUMMARY**

As the Council's Control, Risk and Governance environment has improved, Internal Audit have returned to providing a Half-Year and Annual Report with the option of presenting an urgent issue report to intervening Committee meetings should the need arise. This report provides a summary of the work carried out by Internal Audit in the first six months of this financial year, attached at Appendix A.

**SIGNIFICANT ISSUES IN THE REPORT ARE:**

- The context under which Internal Audit have operated during the period is provided in paragraph 1.
- 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 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 2015/16. 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.

## **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 2 of the report provides a summary of key outcomes from our assurance work during the period including our Grant Certification work enabling the Council to claim various grant funding. In all areas reviewed the procedures were found to be robust and the risk levels acceptable. Additionally, our schools work has seen an increase in the level of Governance we have encountered during our work with the majority of schools reviewed having a residual level of risk as Green within the corporate risk matrix.
- 2.3 Section 3 provides details of our other activities, including:
- Risk Management and Governance work
  - Fraud and Irregularity – proactive and reactive
  - Tenancy Fraud Initiative
  - Audit Service Development

The tenancy fraud Initiative continues to progress well with the number of regains so far this year exceeding the target set. The Audit Service having redesigned during 2014/15 and into the early part of 2015, have been subject to further change in that we are now agile working, allowing the Service to be more efficient and get out amongst its customers more frequently.

- 2.5 Section 4 presents performance against targets for the team during the period. Generally performance is good but some areas have been highlighted for improvement as the new team settles in and develops going forward.

- 2.6 Section 5 provides detail of issues for escalation and it is pleasing to note that we have no such issues at this time.
- 2.7 Section 6 provides details on our use of resources and we are operating within our establishment budget and at a capacity approximately in line with that planned for the first part of the year.
- 2.8 Section 7 lists the key targets we would like to achieve in the next part of the year some of which we have already progressed towards.
- 2.9 Taking into consideration the results of the work we have completed to date, it is clear the Council is moving forward in developing a robust Control, Risk and Governance framework, however there remain areas where further improvements would enhance that environment and as such the drive and support from senior management which has already achieved improvements should not reduce in momentum at this time.

## **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 Half-Year report.

**LOCAL GOVERNMENT ACCESS TO INFORMATION**



**BRISTOL**  
2015 EUROPEAN GREEN CAPITAL

Information Classification: Level 1 Due care

**INTERNAL AUDIT:  
HALF – YEAR UPDATE 2015/16  
Date: November 2015**

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Appendix B Revised Internal Audit Opinions.	

## 1. Purpose of this Half-Year Update Report

- 1.1 This Half-Year Update Report provides a summary of the work completed by Internal Audit (IA) in the period of 1<sup>st</sup> April – 30<sup>th</sup> September 2015. Its purpose is to:
- ❖ Provide a summary of the work completed to date and the level of assurance that can be derived from that work
  - ❖ 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 in this first six months of the financial year
  - ❖ Highlight any areas which may impede the work of Internal Audit during the residual part of the year

## 2. SUMMARY OF OUTCOMES – Planned Assurance Work:

2.1 Details of the Internal Audit work completed, together with the level of assurance and residual risk rating, and the work in progress during the period 1<sup>st</sup> April to 30<sup>th</sup> September 2015 is provided in Appendix A attached to this report; however below is a summary of the key outcomes from our work to date:

### **Financial Control and Governance:**

2.2 As reported in the Annual Governance Statement Action Plan update at the September Committee meeting, improvement continues in this area. A number of interim reports have been issued in order to give the service time to implement the quick win recommendations before a final audit opinion is given:

- Bank Reconciliation
- Accounts Receivable
- Accounts Payable

2.3 Internal Audit has been provided with evidenced improvements regarding Bank Reconciliation and Accounts receivable processes which we will retest prior to finalisation of our opinion and reports in these areas. However, improvement is yet to be evidenced regarding **Accounts Payable**. Additionally, it is noted that the revised and updated **Financial Regulations** remain unavailable.

2.4 Following a review of the **BACS system**, the majority of the recommendations made have been agreed and in some cases implemented immediately. However there remain issue with regard to system integrity and recovery in the event of a disaster which results in a current amber risk level for the Council. This matter will be further pursued with the new system owners.

2.5 The Financial Services Improvement Plan currently being implemented by the Service Director Finance aims to review all of the financial processes that are not working efficiently and effectively and this review is designed to strengthen controls within the financial processes included. Internal Audit will maintain a watching brief on the progress of the plan together with all areas included with periodic update meetings with the Service Manager: Corporate Finance.

2.6 Additionally, Internal Audit are represented in a change programme 'cohort' which aims to thoroughly review the end to end processes for core support services to ensure they are efficient and effective, including those for the financial processes mentioned above (and others). Internal Audit's role will ensure that the governance and control frameworks around the core systems included in this element of the change programme are appropriately maintained to reflect sound management of the risks presented by redesign of those services.

- 2.7 Overall financial control and governance has continued to improve in the first six months of this year and continues to demonstrate a good direction of travel with the number of issues outstanding recognisably reducing as we progress through the year.

**School's Governance:**

- 2.8 Schools financial governance was an area of concern identified by our work last year. A small sample of schools audited during this period has indicated more positive results as illustrated in Appendix A. However, further sampling of schools is planned for the remainder of the year in line with the agreed plan and as this testing continues, we will gain a clearer understanding of whether this improvement is replicated generally across the schools. It remains disappointing that revised **Schools Financial Regulations** have yet to be issued along with much needed training, however, at the time of writing this report, management have advised that the revised regulations are at the clearance stage and will be issued to schools shortly .

**Bristol 2015:**

- 2.7 Internal Audit has completed a number of financial reviews on behalf of the Council on Bristol 2015 which have resulted in an acceptable level of control being found on each occasion. The residual level of risk for the Council in this area is considered to be green.

**Grant Certification:**

- 2.8 Our grant certification work has continued with a number of grants having already being approved and certified in this first six months of the year. In each case the expenditure was found to be within the grant requirements and as such certification was possible, thereby ensuring the Council continues to receive grant monies.

### 3. Summary of Outcomes - Other Activity:

**Risk Management and Annual Governance Review/Statement:**

- 3.1 Internal Audit has continued to facilitate the review of the Corporate Risk Register (CRR). The register has been fully reviewed and scrutinised by the Committee at its September 2015 meeting with a further update scheduled for the January 2016 meeting. The Extended Leadership Team, encompassing the Strategic Leadership Team and the Service Directors continue to engage positively with the review process as well as the Executive Board and the Deputy Mayor. Members of the Audit Committee have also played a key role in ensuring the CRR is accurate and timely and that resolutions are forthcoming as opposed to the risk becoming stagnant, in their open challenge to mitigations and the timeframes in which resolution is achieved.

- 3.2 Progress has been made in development and review of Directorate Risk Registers (DRRs). These are now reviewed and presented to the relevant Scrutiny Commission. Further refinements of this process should help to ensure that DRR's are considered by Directorate Leadership Teams quarterly and Directorate Scrutiny Commissions twice a year and are considered at the same time as Directorate performance information to align risk and performance reporting. The registers will also be brought as information items to Audit Committee meetings. The Committee is due to receive its first DRRs as information items at this meeting.
- 3.3 As the Committee is aware, Internal Audit lead the collation of the Annual Governance Statement (AGS) and monitoring of the supporting Action Plan. The Committee received the Final 2014/15 AGS at its September 2015 meeting together with an update of the Action Plan. The AGS has now been signed by all parties and posted alongside the Annual Statement of Accounts on the Council's Web Site. A further update of the AGS Action Plan is scheduled for the January 2016 committee meeting and in line with the proposed changes to reporting deadlines for the annual accounts a draft AGS will be presented to the Committee at its April 2016 meeting, in preparation for an early July sign-off. Work on collating the Statement is ongoing throughout the year and the Action Plan is maintain on a rolling basis, with the Statement being produced as a snapshot of the Governance environment at a given point in time.

### **Fraud and Irregularity:**

- 3.4 The Council actively continues to seek out and investigate fraud in accordance with its Anti-Fraud and Corruption Strategy and Policy and its legal duty to protect public funds. The Committee receives an Annual Fraud and Error Update at its January meeting the next due in 2016, however, in the interim, a summary of our fraud work during this current period is provided below and in the attached Appendix A.
- 3.5 The Investigations Team has developed with the addition of an intelligence officer and the retention of two members of staff from the Benefits Fraud Investigation Team when they transferred to the DWP's Single Fraud Investigation Service (SFIS), bringing valuable prosecution and benefit/Council Tax skills and knowledge. The Team continue to provide the services as listed below, but with the new role this year of being the point of contact for benefit information for the DWP SFIS. Investigations team services are as follows:
- Responsive fraud work - dealing with allegations of fraud/whistleblowing
  - Proactive fraud work, whereby we are actively searching for fraud by using analysis and data matching techniques
  - Preventative work, where we are reviewing the fraud risks and how effectively they are managed.
  - Value for money work – where a potential opportunity for saving money is identified.
  - SFIS Single Point of Contact
  - Responding to information requests from police and other external enforcement agencies.
- 3.6 In all of the teams work, any gaps in control identified which could allow fraud to happen, are made known to management with recommendations to improve.

### **Benefit Fraud:**



3.7 The new SFIS arrangement for tackling benefit fraud is working effectively with Bristol City Council meeting the terms of the Service Level Agreement with DWP. To date, we have received and processed 123 requests for information about benefit claims from the DWP and a total of £468K of benefit overpayment has been identified. Whilst this represents a lower level of fraud identification than the previous in-house service reported, this is to be expected as new systems bed in and the DWP policies for benefit fraud investigation include higher thresholds for investigation than the Council's. The number of cases referred to the DWP for investigation was initially lower than previously but following awareness raising regarding the new procedures with the benefits service, referrals have increased.

**Tenancy Fraud:**

3.8 A high number of referrals continue to be received and the team continue to work proactively with Housing to combat tenancy fraud as effectively as possible. During the period to date, 24 council properties were regained for re-issue to those with a genuine need and 6 false applications for Housing or 'Right to Buy' applications cancelled. The opportunity to prosecute cases under the new Prevention of Social Housing Fraud Act is being pursued, where appropriate, in conjunction with our colleagues in Legal Services.

3.9 The Team have received 121 referrals so far this year along and a number of referrals were carried over from 2014/15. A summary of referral type and the status of the cases are provided in table A below:

**Table A – Summary of Tenancy Cases:**

<b>Referral Source</b>	<b>No of Cases</b>
Proactive	10
External Referral	58
Employee, Manager or control process	53
<b>Total</b>	<b>121</b>
<b>Investigation Status</b>	<b>No of Cases</b>
Closed – referred elsewhere	12
Live cases*	183*
Closed – property regain or application cancelled	30
Closed – No action taken	78
<b>Total</b>	<b>303**</b>

NB: 1) \*The live cases are as at 27<sup>th</sup> October 2015.

2) \*\*The number of cases differs to the total number of referrals as some cases have been carried over from earlier years.

**Other Fraud Referrals:**

3.10 The Team also investigates other types of fraud as and when referrals are received. Workload and statistics for this element of the work is detailed below:

Table B – Other Fraud Referrals 1<sup>st</sup> April to 30<sup>th</sup> October 2015

<b>Fraud Type</b>	<b>No of Cases</b>
Other Benefits	3
Procurement	2
Cash	1
Grant	0
Local Taxation	2
Assets	4
Cheque	0
Employee	0
Other	6
<b>TOTAL</b>	<b>18</b>

<b>Referral Source</b>	<b>No of Cases</b>
Proactive	0
External Referral	9
Employee, Manager or control process	9
Other (e.g. police, NFI, other LA's, IA)	0
<b>TOTAL</b>	<b>18</b>

Table C - Status of cases worked on in current year

<b>Status of Cases</b>	<b>No of cases</b>
Closed No Investigation	3
Closed Referred elsewhere	7
Closed Advice Given	10
Live	14
Fraud proven	1
<b>TOTAL</b>	<b>35 (incl b/f cases)</b>

### **Proactive Fraud Work**

3.11 We have again taken part in the mandatory National Fraud Initiative (NFI) – data matching exercise – co-ordinating the data download and reviewing the output produced for cases of fraud and error. To date, this work has identified £58K of losses due to fraud and error. In previous years the NFI and other proactive work has identified duplicate payments. To date, none have been found indicating that the Fiscal duplicate payment system implemented earlier this year is effective.

3.12 Our planned work programme this year provides more focus on fraud prevention than previously. A workshop with Service Directors is planned to explore motivators for fraud and how the Council is working to understand when and how it can influence behaviours or remove opportunities for fraud. Additionally, work has been undertaken in the following areas to review the fraud preventative controls in place:

- Direct Payments – an area where we have or are assisting with a number of investigations
- Homelessness

3.13 Other areas planned include, schools, Procurement, 'No recourse to public funds', recruitment fraud.

3.14 Valuing the proactive and responsive fraud work undertaken by the team is difficult as knowing how long a fraud would have continued if it is not identified and stopped can only be estimated. Additionally, the identification of a fraud loss is no guarantee that a recovery will be made. However, the following figures give an indication of the costs to the Council of the fraud identified this year to date and identify where cost recoveries can or have occurred

**Table D – Financial Savings**

**1st April - 30th September 2015**

<b>By Type</b>	<b>HB (£)</b>	<b>CTR (£)</b>	<b>Ltax exemption (£)</b>	<b>Direct Payment (£)</b>	<b>Other (£)</b>	<b>Total (£)</b>
<b>Cancellation of Weekly Incorrect Benefit</b>	1,421.37					<b>1,421.37</b>
<b>Cancellation of annual Exemption</b>			2,592.3			<b>2,592.3</b>
<b>Overpayments identified</b>	468,469.14	14,856.74		4,253.13	6,598.15	<b>494,177.16</b>
<b>Prosecution Costs Awarded to the Council</b>	24,656.35					<b>24,656.35</b>
<b>Administration Penalties Collectable</b>	3,824.87					<b>3,824.87</b>
<b>Other</b>						<b>0.00</b>

<b>By Source</b>	<b>HB (£)</b>	<b>CTR (£)</b>	<b>Ltax exemption (£)</b>	<b>Direct Payment (£)</b>	<b>Other (£)</b>	<b>Total (£)</b>
<b>Benefits Case work</b>	446,596.88	14,856.74				<b>461,453.62</b>
<b>NFI</b>	51,774.85				6,598.15	<b>58,373.00</b>
<b>Other Proactive Fraud Work</b>						<b>0.00</b>
<b>Responsive work</b>			2,592.3	4,253.13		<b>6,845.43</b>

## 4. Internal Audit Service Development, Performance and Effectiveness:

### Audit Service Development

- 4.1 The Service continues to comply with the requirements of the Public Sector Internal Audit Standards and this is constantly under review with each assignment and report. However, in line with requirements to have an independent review of compliance with the standards every five years, a peer review by another authority is planned for the latter end of 2015/16 in conjunction with the Core Cities group. This will ensure our operations continue to reflect best practice.
- 4.2 The Service continues to pursue development to its full potential and to maximise efficiency and effectiveness. Some key developmental work has been completed or is in progress with this aim in mind including the following changes in approach:
- The Audit Service successfully moved to agile working in September and we are now fully equipped to work anywhere where there is a Wi-Fi signal. This move will greatly help our efficiency and provide us with the opportunity to work alongside audit customers more often and get a better understanding of their working context/needs of our service.
  - We have received Non Pay Panel approval to upgrade various fraud management systems to a single corporate fraud management system. This will provide consistent and more efficient processes in managing fraud and remove the need for the three different systems previously used to record and manage fraud investigation. The upgrade is currently being implemented.
  - We are currently reviewing our audit process and the potential efficiencies to us and our clients offered by implementing an automated audit management system. Work on the project is only in the discovery stage at this time; however we will keep the Committee informed of our findings and conclusions as the project proceeds.
  - A considerable amount of work has been completed on the formulation and presentation of our Audit reports. We have aimed for
    - a clearer report format ensuring the recipient can identify the key messages from the report quickly and concisely
    - a revision of our opinion basis to be clearer on the level of assurance management can take on how well their control frameworks manage the risks (Appendix B provides a summary of our revised opinions)
    - a revision of our residual risk assessment to bring it in line with the methodology used for Corporate Risk assessment.

## Performance Against Targets:

- 4.3 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 the period of 1<sup>st</sup> April – 30<sup>th</sup> September 2015 is as follows:

<b>Value for Money Indicators</b>	<b>Q2 Actual</b>	<b>Q2 Target</b>	<b>2015/16 Annual Target</b>	<b>2014/15 Actual</b>
<i>% of Audit Reviews reported within target days from commencement of work (3x number of days for audit review)</i>	54%	90%	90%	62%
<i>High/Medium recommendations Implemented or Escalated</i>	16%	65%	90%	71%
<i>No. of Properties recovered by tenancy fraud work.</i>	24	20	40	40
<i>% of planned Statutory Assurance work completed/in progress/not required against plan</i>	56%	40%	90%	88%
<i>% of planned statutory assurance days completed against plan</i>	34%	35%	90%	108%
<i>% of QAQs with a score of 4 or more (Customer Satisfaction)</i>	82%	90%	90%	95%
<i>% of planned follow-up work completed/in progress within protocol timescale.</i>	60%	90%	90%	60%
<i>External Audit Opinion on Internal Audit (Annual Indicator)</i>	N/A	N/A	Positive	Positive

- 4.4 The Service has performed well in the following important areas:

- ❖ The level of statutory assurance work completed has exceeded that planned for this point in the year. This is as a result of bringing forward some statutory work into the earlier part of the year. Statutory audit work is that we consider must be completed to enable us to ensure we are well placed at the end of the year to form our annual opinion on the Control, Risk and Governance environment within the Council.
- ❖ The number of properties we have regained as a result of the tenancy fraud work we do has exceeded the target.

- 4.5 There are some areas where we need to continue to focus our service improvement efforts in this next period and going forward:

- ❖ The turnaround of our audit work continues to be an issue which we are striving to address, however the delay is not always of our making. Delays continue to be experience in getting information from our customers due to changes in personnel or the workload of the information provider, therefore, whilst the audit field work on the review may have been completed in a timely manner a delay in receiving one vital piece of information can throw the turnaround time outside of our accepted target. We are currently exploring ways of dealing with this issue as part of our continuing review of our processes.
- ❖ Confirming implementation of recommendations is lower than expected. However, this is due to a number of follow –up reviews being delayed in order to allow for changes in processes to embed before we form a final opinion. Additionally, a high proportion of the outstanding recommendations are subject of wider improvement projects and will be followed up as part of our ongoing involvement in the project. This way we can ensure the recommendations are implemented before the project goes live.
- ❖ Unusually, our Customer satisfaction scores are down on our target and on performance last year. We are currently investigating the reason for the drop in scores in order to ensure improvements are made where necessary.

## 5. Escalation Matters:

- 5.1 Internal Audit operate a follow up and escalation procedure which requires all high and medium rated recommendations made in areas where the residual level of risk is considered Red or Amber on the Corporate Risk Matrix to be subject to follow up review within 6 months (if feasible) of the original audit. This policy is scheduled to be reviewed in the next quarter to reflect our move towards greater interim reporting and to ensure our approach to escalation of final reporting where risk levels are unacceptable is robust.
- 5.2 Internal Audit have an open invitation to present to the SLT any matters which they feel are not being addresses appropriately and where they feel SLT can have an impact.
- 5.3 We have nothing specific to escalate to the Audit Committee at this time, other than the matters upon which it is receiving separate reports.

## 6. Resources:

- 6.1 Internal Audit resources have generally been in line with that planned for the first six months of the year. We have successfully recruited an Audit Manager to lead on Governance and Risk Management, who has also taken responsibility for our Tenancy Fraud Initiative. Additionally, following the successful approach to training our own staff via the Council’s Apprenticeship scheme last year, we have appointed a further apprentice to work and train with us this year and next. However, we continue to have vacancies at both Group Auditor and Auditor to which we are currently recruiting. We are hoping the Group Auditor post will be filled by the end of the third quarter. These vacancies are as a result of staff leaving the Council employ and not due to our redesign. Additionally, our move from the Corn Street

Offices to an office base at Park View Campus to enable us to achieve agile working was not planned and has impacted to some degree on resources available for audit work.

- 6.2 Financially, we are currently operating well within our establishment budget, with a small underspend which we would hope to contribute toward the cost of Audit Automation should that project go ahead.

## 7. Key Targets for the next 6 months:

- 7.1 The Internal Audit Service looks forward to the rest of the year and going forward in our more agile working set up and there are some specific targets we would seek to achieve by the year end:
- ❖ Finalise our decision on Audit Management automation and go some way toward implementation, should that be the direction we decide to take.
  - ❖ Develop our service offer to an extent that we can take it to the next level by expanding our trading outside of the Council , thereby retaining the skills and capacity within the team, but ultimately costing the Council less.
  - ❖ Reviewing our intranet pages to ensure our advice and guidance is kept up to date and managers across the Council have online access to self-serve in terms of best practice regarding risk management and internal control.
  - ❖ Monitoring the success and outcomes of the new Single Fraud Investigations Service in tackling benefit fraud and ensuring information exchange with them is effective. Additionally, developing our approach to the Council Tax reduction fraud so that it is robust, proportionate and consistent with other fraud risks faced by the Council.
  - ❖ Completion of assurance mapping across the Council to better inform our Audit plan going forward. This work is already in progress.
  - ❖ Developing a resources/recruitment strategy in order to ensure we have sufficient resources to provide a comprehensive service, thereby avoiding the need to use temporary staff.

## 8 Context and Compliance:

- 8.1 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).

8.2 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
- The Accounts and Audit Regulations 2015 (England) states that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”

8.3 Internal Audit has operated in accordance with the Public Sector Internal Audit Standards and Local Government Application.

8.4 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.



**Summary of Internal Audit Work 1st April - 30th September 2015**

Appendix A

**PLANNED ASSURANCE WORK COMPLETED/IN PROGRESS AT PERIOD END**

Directorate	Subject	Status	Level of Assurance	Risk Level on Corporate Matrix	Comments
B Change	BACS System	Complete	Acceptable except system access and back up	Amber	Internal Audit remain concerned about the lack of a system of internal control to ensure undisrupted services are provided by C-Series.
People	Liquid Logic	Complete	Partial	Amber	Weakeness in control over external users of the system. Follow up is in progress.
B Change	Registrars Finance review	Complete	Partial	Green	The receipting and monitoring of income are in need of improvement. However the level of income is marginal in comparison to the Council's key income streams, hence the residual level of
People	2 x Childrens Centre	Complete	Acceptable/Partial	Green	Issues around the monitoring and collection of outstanding debt at one centre.
Place	Better Bus Area Fund 2 (Mar 15)	Complete	Good	Green	
B Change	ABW – Budgetary Control	Complete	Good	Green	
City Dir	Bristol 2015	Complete	Good/Acceptable	Green	
People	Direct Payment Review	Complete	Acceptable	Green	
People	Review of Traded Service Function	Complete	Acceptable	Green	
People	2 x Primary School	Complete	Acceptable	Green	
People	1 x Special School	Complete	Acceptable	Green	
People	1 x Junior School	Complete	Acceptable	Green	
B Change	ABW – Ordering and Payments	Complete	Interim	N/A	
B Change	ABW – Bank Reconciliation & Income Manager	Complete	Interim	N/A	
B Change	ABW – Debtors - B/F	Complete	Interim	N/A	
B Change	Mobile device security	In Progress			
B Change	Treasury Management	In Progress			
B Change	Value Added Tax	In Progress			
B Change	HR - Implementation of new system	In Progress			
B Change	Network/Deskop security	In Progress			
B Change	Procurement - Review of a sample of tenders	In Progress			
CORP	Corporate Panel Effectiveness ( Pay and non pay)	In Progress			
CORP	Transparency - Culture and Code Compliance	In Progress			
CORP	Business Continuity Planning/Disaster Recovery	In Progress			
CORP	Annual Governance Review and Statement	Ongoing			
CORP	Change Programme Financial Governance	In Progress			
CORP	Procurement Waivers - review of Waiver granted	In Progress			
CORP	Recruitment & Selection (inc Disclosure and Barring Service Checks)	In Progress			
Neighbourhoods	Housing Management IT System	In Progress			
People	Contracts – Monitoring of providers.	In Progress			
People	Replacement of Education Systems with Liquid Logic.	In Progress			
People	1 x Intermediate Care Centre	In Progress			
People	Budgetary Control - People Directorate	In Progress			
People	1 x Primary School	In Progress			
People	1 x Infant School	In Progress			
People	1 x DGE Special School	In Progress			
People	1 x Secondary School	In Progress			
People	School Fund Audit Certificates - Monitoring	In Progress			
People	Better Care Funding Stream - Integrated Re-ablement and Mental Health	In Progress			
Place	Facilities Management - Markets Operations	In Progress			Report to Audit Committee November meeting.

**PLANNED GRANT CERTIFICATION WORK COMPLETED IN THE PERIOD**

Directorate	Subject	Status	Level of Assurance	Revised Level of Risk	Comments
B Change	Bath/Bristol Investment Funding April 12 - March 15 City Deal	Complete	Acceptable	Green	
City Dir	Carbon Efficiency Grant 14-15	Complete	Acceptable	Green	
CORP	Urbact Grant	Complete	Acceptable	Green	
Neighbourhoods	Scambuster Grant Audit	Complete	Acceptable	Green	
People	Troubled Families Initiative Grant Certification Process – June Certification	Complete	Acceptable	Green	
People	Troubled Families Initiative Grant Certification Process – September Certification process	Complete	Acceptable	Green	Data quality issues but sign off achieved
People	Disabled Facilities Grant	Complete	Acceptable	Green	
Place	LSTF Key Component	Complete	Acceptable	Green	

**PLANNED FOLLOW-UP AUDIT WORK COMPLETED/IN PROGRESS AT PERIOD END**

Directorate	Subject	Status	Original Level of Risk	Revised Level of Risk	Comments
B Change	Housing Rents - Follow up	Complete	Of Concern	Amber	Improvement has been made but amber risk levels remain due to the nature of the income stream and issue with outstanding former tenant debt.
B Change	Scan Coin Issues	Complete	Of Concern	Green	
People	Liquid Logic (Social Care system) - Follow up	In Progress			

**CONSULTANCY/ADVICE WORK COMPLETED OR IN PROGRESS AT PERIOD END**

Directorate	Subject	Status
B Change	HR - New IT System	Complete
CORP	Code of Governance Review	In Progress
CORP	Information Assurance Board Attendance	In Progress
CORP	Financial Regulations Development	In Progress
CORP	Audit Committee Support and Development	In Progress
CORP	External Audit Liaison	On going
Place	Energy Company - Audit and Advice	In Progress
CORP	Email - retrieval from back up - urgent issues note issued.	Complete

to be followed up

**FRAUD/IRREGULARITY ALLEGATIONS INVESTIGATED WHERE CONTROL REPORTS ISSUED:**

Directorate	Subject	Status	Outcome
People	Homecare Contract	Complete	No Fraud or Irregularity Identified
People	Direct Payments Case	Complete	Proven - Overpayment being recovered
Neighbourhoods	Response Maintenance	Complete	No Fraud or Irregularity Identified
Neighbourhoods	Concession	Complete	No Fraud or Irregularity Identified
Neighbourhoods	s106 Funding	Complete	No Fraud or Irregularity Identified

**PRO-ACTIVE FRAUD/VFM AGENDA**

Subject	Status
National Fraud Benchmarking Questionnaire - CIPFA	Complete
Transparency Code collation of Fraud Data	Complete
Parking income analysis	Complete
NDR Fraud Testing	In Progress
Money Laundering Review	In Progress
Council Tax Reduction - Case work	In Progress
Benefit Fraud - info exchange, monitoring outcomes (Adpens etc)	In Progress
Council Tax Reduction - Development of Counter Fraud	In Progress
NFI - Main download 2015	In Progress
Purchase and Credit Card usage review	In Progress

NFI Main run - output	In Progress
ID Validation project	In Progress
Fraud and warning bulletins	In Progress
Fraud cause and prevention Review	In Progress
Whistleblowing compliance with best practice including confidence survey	In Progress
Fraud controls - Follow up work	In Progress
No Recourse to Public Funds	In Progress
Homelessness review + testing	In Progress
Continuous Data Matching - Citizen Index	In Progress
Direct Payment - Fraud Control (Incl. follow up of previous year issues.)	In Progress

**TENANCY FRAUD AGENDA**

Subject	Status
Tenancy Fraud investigations	On going
Housing Register NFI exercise - download	Complete
Tenancy Fraud awareness training new Estates staff	Complete
Caretaker Tenants	In Progress
Marketing Tenancy Fraud Service	In Progress

**DEVELOPMENT PROGRAMME**

Directorate	Subject	Status
CORP	Charter and Strategy Update	Complete
CORP	Intranet update and maintenance	In Progress
CORP	Audit Automation Business Case + Implementaion	In Progress
CORP	Attendance at Networking Groups	In Progress
CORP	Benchmarking	In Progress
CORP	Performance Monitoring and Periodic Reporting	In Progress

**RISK MANAGEMENT AGENDA**

Directorate	Subject	Status
CORP	Corporate Risk Register - Quarterly Review	On going
CORP	Risk Management Guidance (including web guidance)	In Progress
CORP	Risk Management Overview and Reporting	In Progress
CORP	Risk Management Benchmarking/Best Practice	In Progress

## Appendix B - Formulating Audit Opinions

### Stage 1 - Formulating the Audit Opinion:

An opinion will be given in each audit report. The opinion should advise managers on the strength of controls and the level of assurance they can gain about the internal control, risk management and governance arrangements in place in the area reviewed.

Audit opinions will be standardised and will be given as follows:

Opinion	Meaning of Opinion/Assurance	When to use – Consistence Guidance
Good Control	There is a good system of governance and internal control to assist achievement of the identified objectives and manage the associated risks. Only minor weaknesses were identified and management can have <b>reasonable assurance</b> that areas covered by the review are effectively managed and controlled.	<ul style="list-style-type: none"> <li>• all risks are effectively mitigated</li> <li>• no recommendations are made, a few minor areas for improvement may have been identified</li> </ul>
Acceptable Control	Overall the system of internal control and governance is satisfactory and management can have <b>reasonable assurance</b> that many areas covered by the review are effectively managed and controlled. There are however weaknesses which put some of the identified objectives at risk.	<ul style="list-style-type: none"> <li>• all key risks are effectively mitigated and most other risks are mitigated</li> <li>• several recommendations have been made</li> <li>• recommendations are medium or low</li> </ul>
Partial Control	Missing or failing controls were identified which have a substantial impact on the extent to which management can rely on the systems of internal control and governance. Only <b>limited assurance</b> can be given that the risk areas covered by this review are effectively managed and controlled.	<ul style="list-style-type: none"> <li>• several key risks are not effectively managed</li> <li>• several recommendations have been made</li> <li>• recommendations include a number of high and medium recommendations</li> </ul>
No control	Internal control and governance is weak and management can place no reliance on it. This leaves the system open to significant risk, error or abuse. <b>No assurance</b> can be given that the risk areas covered by this review are properly managed and controlled.	<ul style="list-style-type: none"> <li>• the majority of control objectives are not met</li> <li>• the majority of key risks are not effectively managed.</li> <li>• numerous recommendations are made</li> <li>• recommendations include a large number of high and medium recommendations</li> </ul>

## Stage 2 - Provide an Assessment of the Overall Current Risk Level to the Council.

The level of risk exposure will depend on:

### a) how likely things are to go wrong given the controls in place

Opinion	Likelihood of Risk Occurring	Descriptor	Numerical Likelihood
Good Control/ Reasonable assurance	<ul style="list-style-type: none"> <li>Almost impossible</li> <li>Unlikely</li> </ul>	<ul style="list-style-type: none"> <li>Will probably never happen</li> <li>Not expected to happen but possible</li> </ul>	<ul style="list-style-type: none"> <li>Less than 1%</li> <li>Less than 25%</li> </ul>
Acceptable Control/ Reasonable assurance	<ul style="list-style-type: none"> <li>Possible</li> </ul>	<ul style="list-style-type: none"> <li>Might happen on rare occasions</li> </ul>	<ul style="list-style-type: none"> <li>Less than 50%</li> </ul>
Partial Control/ Limited assurance	<ul style="list-style-type: none"> <li>Probable</li> </ul>	<ul style="list-style-type: none"> <li>Probably will happen on rare occasions</li> </ul>	<ul style="list-style-type: none"> <li>50% or more</li> </ul>
No Control/ No assurance	<ul style="list-style-type: none"> <li>Likely</li> <li>Almost certain</li> </ul>	<ul style="list-style-type: none"> <li>Probably will happen at regular intervals</li> <li>Surely will happen and possibly frequently</li> </ul>	<ul style="list-style-type: none"> <li>75% or more</li> <li>99% or more</li> </ul>

### b) The level of **corporate impact** (taking into consideration of the control environment) of the area under review if the risks do happen. Use the corporate impact guidance grid and the 'locality' of the weaknesses identified/how far reaching they are to assess whether the impact is:

- Marginal
- Significant
- Critical
- Catastrophic

The risk level can then be assessed on the Corporate risk matrix (below) and the colour recorded in the audit report:

<b>Likelihood</b>	6	Almost Certain	6	12	18	24
	5	Likely	5	10	15	20
	4	Probable	4	8	12	16
	3	Possible	3	6	9	12
	2	Unlikely	2	4	6	8
	1	Almost Impossible	1	2	3	4
			Marginal 1	Significant 2	Critical 3	Catastrophic 4
			<b>Impact</b>			

## Measuring Corporate Impact Guidance:

	Effect on service provision	Potential Financial loss/gain	Potential Fraud & Corruption loss	Reputation	Legal	Environmental	Communities	Personal safety
1 Marginal	Very limited effect (positive or negative) on service provision. Impact can be managed within normal working arrangements	Under £100k	Under £10k	Minimal and transient loss of public trust. Contained within the individual service	No significant legal implications or action is anticipated	No effect (positive/negative) on the environment /community	Minimal effect on community	Minor injury to service users or staff may result or can be prevented.
2 Significant	Noticeable and significant effect (positive or negative) on service provision. Effect may require some additional resource, but manageable in a reasonable time frame.	Between £100k - £0.5m.	Between £10k –£50k	Significant public interest although limited potential for enhancement of or damage to reputation.  Dissatisfaction reported through Council Complaints procedure but contained within the Council	Tribunal/ BCC legal team involvement required (potential for claim)	Short term effect (positive or negative) on the natural and or built environment	Short term effect (positive or negative) on a small number of vulnerable groups/individuals	Significant injury or ill health of service users or staff may result or be prevented.
3 Critical	Severe effect on service provision or a corporate Plan priority area. Effect may require considerable additional resource but will not require a major strategy change.	Between £0.5m - £10m	Between £50k - £1m	Serious potential for enhancement of or damage to image.  Dissatisfaction regularly reported through Council Complaints procedure .  Local or national interest.  Local MP involvement.	Criminal prosecution anticipated and or civil litigation.	Serious local discharge of pollutant or source of community annoyance that requires remedial action.	Medium term effect (positive or negative) on a significant number of vulnerable groups/individuals.	Major injury or ill health of service users or staff may result or be prevented. Long term disability/absence from work.
4 Catastrophic	Extremely severe service disruption. Significant customer opposition. Legal action. Effect could not be managed within a reasonable time frame, or by a short term allocation of resources and may require major strategy changes. The Council risks 'special measures'	More than £10m	More than £1m	Highly significant potential for enhancement of or damage to image. Intense local and national media attention. Public enquiry or poor external assessor report. Officer member forced to resign	Criminal prosecution anticipated and or civil litigation (> 1 person)	Lasting effect on the natural and or built environment.	Lasting effect positive or negative) on a significant number of vulnerable groups/individuals.	(Avoidable) Death of service users or staff may result or be prevented. Long term disability/absence from work.