

BRISTOL CITY COUNCIL
AUDIT COMMITTEE
11th March 2016

Report of: Chief Internal Auditor

Report Title: Internal Audit Interim Update Report 2015/16

Ward: Citywide

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RECOMMENDATION

The Committee is recommended to note and comment on this interim Internal Audit Update report which provides details of Internal Audit work for period 1st April to 31st December 2016.

This report was presented to the Deputy Mayor on 2nd March 2016.

SUMMARY

Internal Audit had planned this year to bring only a half year and annual update report to the Committee. However, given that a number of reviews in key areas were completed in the early part of quarter three (missing the half year update), it was felt appropriate to provide the Committee with an interim update summary after quarter three to keep members of the Committee up to date.

This report provides the Committee with details of Internal Audit's performance and service develop work completed this year to the end of quarter three together with some benchmarking data that the Committee may find useful when evaluating the performance of Internal Audit.

SIGNIFICANT ISSUES IN THE REPORT ARE:

- Key updates are provided at paragraph 2
- Internal Audit Performance at paragraph 3
- The work and conclusions of Internal Audit during the period is provided at Appendix A.

Policy

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”

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

Consultation:

Internal: None necessary
External: None necessary

1. Background and Context

1.1 Internal Audit provides update reports to management and the Audit Committee which summarise the work carried out by Internal Audit as the year progresses. Below are details of matters arising which have occurred since the Committee received its half-year Internal Audit update report, together with Appendix A which provides the Committee with details of the status of all the work undertaken by Internal Audit up to the end of quarter three. The report is provided to:

- highlight any significant issues to management or the Audit Committee for their consideration and necessary action.
- present the work completed by the Internal Audit team during the year to date, together with the conclusions we have drawn from that work. (*Appendix A*)
- provide management and the Audit Committee with details of Internal Audit performance, to assure them that the Audit service continues to be effective and resourced to be fit for purpose.

2. Key Updates from the Work Completed:

Financial Control and Governance

- 2.1 It is pleasing to report that of the three interim reports issued earlier in the year, two of the services have now been re-visited and both are now considered to have an acceptable control framework in place, therefore while still recognising that there remain areas for improvement the direction of travel is positive. These services are:
- Accounts Receivable
 - Accounts Payable
- 2.2 We have yet to conclude our report regarding bank reconciliation control processes (the other service where we had previously issued an interim report) as we have been advised that work is ongoing to improve this service. We have agreed a timeframe of 31st March 2016 for us to evidence that improvements have been made.
- 2.3 Revised and updated Financial Regulations remain unavailable and following an interruption to the progress of the Financial Services Improvement Plan due to staff absences and resignations, Internal Audit understand that additional resource has been engaged to drive the improvements forward over the next few months.

Maintained School's – Financial Governance:

- 2.4 Schools continue to demonstrate a good/acceptable level of control within their financial governance in those reviewed by Internal Audit up to the end of quarter three, as detailed in Appendix A. There remain a number of school audits in progress and the outcome from these will be reported in our year-end report.
- 2.5 Schools Financial Regulations have now been approved and cascaded to all schools. Internal Audit understand that training in the revised Regulations may not be required as the context of the Regulations has not change greatly from that in the previous version.

Risk Management and Annual Governance Statement/Review:

- 2.6 The Committee received the updated Corporate Risk Register at its January 2016 meeting, with the next interim review already in progress. The Committee have also received the following Directorate Risk Registers as information items:
- Place
 - Neighbourhoods
 - People

The Business Change Directorate Risk Register is due to come to this

meeting.

- 2.7 The Committee received an update on the Annual Governance Statement (AGS) action plan at its January 2016 meeting, with the draft 2015/16 AGS due to come to the Committee at its April 2016 meeting, together with a further updated Action Plan. The review process for the 2015/16 AGS has now commenced.

3. Internal Audit Service Development, Performance and Effectiveness:

Peer Review:

- 3.1 The Public Sector Internal Audit Standards (PSIAS) 2015 introduced the requirement for an external review of Internal Audit to determine the extent to which the Audit service complies with these professional standards. To address this need, a schedule of peer reviews between our Core City counterparts is being planned. This approach not only provides a minimal cost solution for the external review but also provides the means for shared learning across the Core City Audit Teams. The final schedule of reviews will be agreed shortly together with draft timings which are planned for 2016/17. Internal Audit is currently in the process of refreshing its self-assessment against the Standards in preparation for the review.

Quarter 3 Internal Audit Service - Performance Against Targets:

- 3.2 Performance targets have been identified and progress against these is continually monitored throughout the year by the Service Director - Finance. Performance against these targets for the period of 1st April – 31st December 2015 is as follows:

Value for Money Indicators	Q3 Actual	Q3 Target	Q2 Actual	2015/16 Annual Target	2014/15 Annual Actual
<i>% of Audit Reviews reported within target days from commencement of work (3x number of days for audit review)</i>	57%	90%	54%	90%	62%
<i>No. of Properties recovered by tenancy fraud work.</i>	40	30	24	40	40
<i>% of planned Statutory Assurance work completed/in progress/not required against plan</i>	69%	68%	56%	90%	88%
<i>% of planned statutory assurance days completed against plan</i>	106%	70%	34%	90%	108%
<i>% of QAQs with a score of 4 or more (Customer Satisfaction)</i>	83%	90%	82%	90%	95%

Value for Money Indicators	Q3 Actual	Q3 Target	Q2 Actual	2015/16 Annual Target	2014/15 Annual Actual

3.3 Performance is currently on target or above in the following areas:

- Council properties recovered as a result of focussed work on tenancy fraud. The annual target has been reached by the end of quarter three however this work is important to the Council and will continue for the rest of the year and into 2016/17.
- The level of planned statutory assurance work we have delivered is on target to ensure we are in a position to report an informed opinion on the control, risk and governance framework in our annual report to the Strategic Leadership Team and Audit Committee. We have exceeded the number of statutory assurance planned days to achieve this level of work to date. This is in some part, due to us extending the scope of some reviews but does demonstrate that we are prioritising our resource towards key areas of our plan.

3.4 Areas where performance is below target include:

- Audit review turnaround time. Whilst this is below target, it has improved slightly on quarter two performance. We continue work to identify the reason for the delays in completion of our work and correct our processes where these are the cause of the delays. Some of the reasons we have already identified as contributing to this are:
 - The team move to new offices and agile working meant that some reviews were put on hold for a short period of time.
 - Incorrect audit scope can result in reworking in some areas
 - Delays in receiving information from our Audit customers who themselves are often tackling resource prioritisation issues.
- Customer satisfaction levels remain below target. Again we are working to determine the reasons for this and are focussing our current improvement work around:
 - Quality Assurance Questionnaire return rate – currently moderate
 - Audit Turnaround time and the timeliness of our work
 - Value added by our reviews

Core Cities Benchmarking:

3.5 Internal Audit has participated in an annual benchmarking exercise with Core Cities for a number of years. The comparison is fairly rudimentary but it does provide a general guide to where we stand with regard to the following important areas:

- Net chargeable days per auditor – the benchmarking has demonstrated that in 2014/15, the Bristol Audit Team delivered slightly above the Core City average on this measure.
- Gross cost per net chargeable day – the benchmarking has demonstrated that in 2014/15, our net cost per chargeable day is below average and well within the range for the Core City group.

3.6 Overall this exercise demonstrates that the Service is operating well within acceptable parameters in terms of providing value for money to the Council. Fuller details of this analysis have not been provided for commercial reasons. Our aim for the next financial year is to further increase our efficiency and ensure our service is competitive as we attempt to reduce the cost of the Audit Service to the Council by generating income from organisations outside the Council.

Other Service Development Work:

3.7 **Self-help guidance:** Work has begun on updating our intranet pages in order to facilitate an element of self-help for our internal customers. We will also need to ensure our external web presence promotes the services and skills the team has to offer to both internal and potential external customers.

3.8 **Automation:** We have purchased a single fraud management system to replace three different systems currently used to record and monitor all fraud investigative work. We are awaiting implementation of the system which should see an increase in efficiency and fuller management information around fraud once it has embedded. We have also commenced some early discovery work into the benefits and costs of Audit Automation software to determine if such an approach will improve either our efficiency or our interaction with our audit customers.

4. Resources:

4.1 The Service continues to operate well within existing budget with a small predicted underspend, this is due to reduced staffing over the year whilst we recruited into our full structure. We have completed our recruitment and are looking forward to some stability in staffing now and in the next financial year. Two staff have been on long term sickness absence during quarter 3 which will impact on the extent to which non statutory elements of our plan may be achieved.

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 Work for period 1st April to 31st December 2015.

LOCAL GOVERNMENT ACCESS TO INFORMATION

Summary of Internal Audit Work 1st April - 31st December 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	Controls over external users requires improvement
People	Contracts – Monitoring of providers.	Complete	Acceptable	Amber	Monitoring is happening, but it is not consistent
Corporate	Change Programme Financial Governance	Complete	Acceptable	Amber	Acceptable level of control, however there remains some areas for improvement.
Corporate	Procurement of legal service in setting up a partnership	Complete	Partial	Amber	Governance issues in engagement of legal service to support a new partnership set up, defining and monitoring costs. Communication issues.
Corporate	Procurement Waivers	Complete	Partial	Amber	System does not provide robust challenge to non compliance with procurement regulations
B Change	Mobile device security	Interim	Interim	Interim	Report on Information Security to Audit Committee March 2016 meeting.
B Change	Registrars Office - Income collection	Complete	Partial	Green	Risk level considered green due to the marginal financial impact on the Council as a whole.
People	5 x Junior/Primary Schools	Complete	Good/Acceptable	Green	
People	2 x Special Schools	Complete	Acceptable	Green	
People	1 x Infant School	Complete	Good	Green	
People	1 x Secondary Secondary	Complete	Acceptable	Green	
People	1 x Childrens Centre	Complete	Partial	Green	
People	Direct Payment Case Review	Complete	Acceptable	Green	
People	Intermediate Care Centre (incl procurement card usage)	Complete	Acceptable	Green	
People	Review of Traded Service Function - Trading with Schools	Complete	Acceptable	Green	
B Change	ABW – Budgetary Control	Complete	Good	Green	
B Change	Duplicate Payments - Effectiveness of Fiscal Solutions	Complete	Good	Green	
B Change	Treasury Management	Complete	Good	Green	
B Change	Registrars Finance review	Complete	Acceptable	Green	
City Director	2x Bristol 2015 assurance audits	Complete	Good/Acceptable	Green	
City Director	Bristol 2015 - Grant allocation Process	Complete	Acceptable	Green	
Corporate	Transparency - Culture and Code Compliance	Complete	Acceptable	Green	
Neighbourhoods	Public Health - Alcohol and Drug Treatment Services	Complete	Acceptable	Green	
Place	Facilities Management - Markets Operations	Complete	Acceptable	Green	
People	SFVS Returns to inform audit planning and collation of returns by May 2015	Complete	N/A	N/A	
B Change	Housing Benefits	In Progress			
B Change	Value Added Tax	In Progress			
B Change	HR - Implementation of new system	In Progress			
B Change	Procurement - Review of a sample of tenders	In Progress			
City Director	Bristol 2015 (3rd Audit)	In Progress			
Corporate	Corporate Panel Effectiveness (Pay and non pay)	In Progress			
Corporate	Staff Declarations of Interest (tier 4 and below)	In Progress			
Corporate	Freedom of Information Requests (including vetting of	In Progress			
Corporate	Business Continuity Planning/Disaster Recovery	In Progress			
Corporate	Annual Governance Review and Statement	In Progress			
Corporate	Recruitment & Selection (inc Disclosure and Barring Service Checks)	In Progress			
Neighbourhoods	Housing Management IT System	In Progress			
People	Safeguarding (Adults)	In Progress			
People	Budgetary Control - People Directorate	In Progress			
People	Collating SFVS Returns due by 31 March 15 - Q3 and Q4 work	In Progress			
People	2 x Primary Schools	In Progress			
People	1 x Nursery & Children's Centre	In Progress			
People	School Fund Audit Certificate - Monitoring and chasing the return of Audit Certificates.	In Progress			
People	Better Care Funding Stream - Integrated Re-ablement and Mental Health	In Progress			
Place	Corporate Capital Programme Board	In Progress			
City Director	1 x External Contract Review	In Progress			
Corporate	Review of Asset disposal	In Progress			

PLANNED GRANT CERTIFICATION WORK COMPLETED/IN PROGRESS 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 Director	Carbon Efficiency Grant 14-15	Complete	Acceptable	Green	
Corporate	Urbact Grant	Complete	Acceptable	Green	
Neighbourhoods	Scambuster Grant Audit	Complete	Acceptable	Green	
People	Troubled Families Initiative Grant Certification Process	Complete	Acceptable	Green	
People	Disabled Facilities Grant	Complete	Acceptable	Green	
Place	LSTF Key Component	Complete	Acceptable	Green	
Place	Better Bus Area Fund 2	Complete	Good	Green	
People	Troubled Families Initiative Grant Certification Process – January Certification process	In Progress			
Place	Cycle City	In Progress			

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	Red	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	Red	Green	
B Change	ABW – Accounts Payable	Complete	Interim	Green	Acceptable control now in place, however there remain areas where further improvements will raise the level of control to good.
B Change	ABW - Accounts Receivable	Complete	Interim	Amber	Acceptable control now in place. Debt recovery plan is in place and resources are being expended debt recovery. Focus needs to be retained to ensure the improvement is sustainable.
B Change	ABW - Bank Reconciliation & Income Manager	Complete	Interim	Interim	Report remains at the interim stage as there are still some areas for improvement which are being progressed but have yet to embed.

CONSULTANCY/ADVICE WORK COMPLETED OR IN PROGRESS AT PERIOD END

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

PRO-ACTIVE FRAUD/VFM AGENDA

Subject	Status
National Fraud Benchmarking Questionnaire	Complete
Transparency Code collation of Fraud Data	Complete
Parking income analysis	Complete
Fraud cause and prevention Review	Complete
Direct Payment - Fraud Controls	Complete
Service Directors Fraud Awareness Workshop	Complete
Fraud Policy Review	Complete
Investigation Protocol Review	Complete
NNDR Fraud Testing	In Progress
Money Laundering Process Review	In Progress
Council Tax Reduction - Case work	In Progress
Benefit Fraud - info exchange, monitoring outcomes	In Progress
Council Tax Reduction - Development of Counter Fraud	In Progress
National Fraud Initiative - Mandatory exercise	In Progress
Purchase and Credit Card usage review	In Progress
ID Validation project	In Progress
Fraud and warning bulletins	In Progress
Whistleblowing compliance with best practice including confidence survey	In Progress
No Recourse to Public Funds	In Progress
Homelessness review + testing	In Progress
Continuous Data Matching	In Progress
Caretaker Tenants	In Progress
Fraud Risk Register Review	In Progress
Fraud web pages review	In Progress
Blue badge/concessionary fares, Parking Zone - fraud control review	In Progress

Improvements agreed

TENANCY FRAUD AGENDA

Directorate	Subject	Status
Neighbourhoods	Tenancy Fraud (excl proactive exercises and HA role)	In Progress
Neighbourhoods	Housing Register NFI exercise - download	Complete
Neighbourhoods	Tenancy Fraud awareness training new Estates staff	Complete

DEVELOPMENT PROGRAMME

Directorate	Subject	Status
Corporate	Charter and Strategy Update	Complete
Corporate	Intranet update and maintenance	In Progress
Corporate	Audit Automation Business Case	In Progress
Corporate	Attendance at Networking Groups	In Progress
Corporate	Benchmarking	Complete
Corporate	Performance Monitoring and Periodic Reporting	In Progress
Corporate	Peer Review - including our own self assessment against PSIAS	In Progress

RISK MANAGEMENT AGENDA

Directorate	Subject	Status
Corporate	Corporate Risk Register	On going
Corporate	Risk Management Guidance (incl web)	In Progress
Corporate	Risk Management Overview and Reporting	In Progress
Corporate	Risk Management Benchmarking/Best Practice	Complete
Corporate	Risk Management Policy Review	Complete

TRADED SERVICES

Contract	Status
Avon Fire & Rescus Service	Ongoing
2 x Acadamies	Ongoing
Training to 1 Local Authority	Complete