



# BRISTOL INTERNAL AUDIT

Information Classification: Level 1 Due care

## INTERNAL AUDIT: ANNUAL REPORT 2016/17

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## 1. Purpose of this Annual Report

1.1 This Annual Report provides a summary of the work completed by Internal Audit (IA) during 2016/17. Its purpose is to:

- Provide the Head of Internal Audit's (HoIA) annual opinion on the overall adequacy and effectiveness of the Council's governance; risk management and control framework during 2016/17 to support the preparation of the Annual Governance Statement;
- Provide a summary of the work completed from which the opinion is derived;
- Draw attention to areas of significant risk exposure which need corrective action to improve the control framework;
- Consider the performance and contribution of the Internal Audit service.

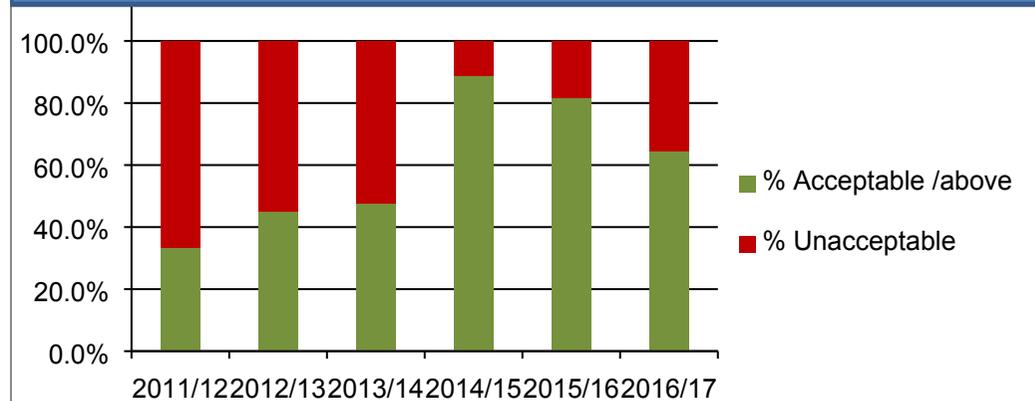
## 2. Head of Internal Audit Opinion and Key Headlines:

2.1 This report provides a summary of the work undertaken by Internal Audit in the financial year 2016-17 and the results of that work. From the work undertaken during the year, our overall opinion on the adequacy of the Council's arrangements for Corporate Governance, Risk Management and Internal Control is that:

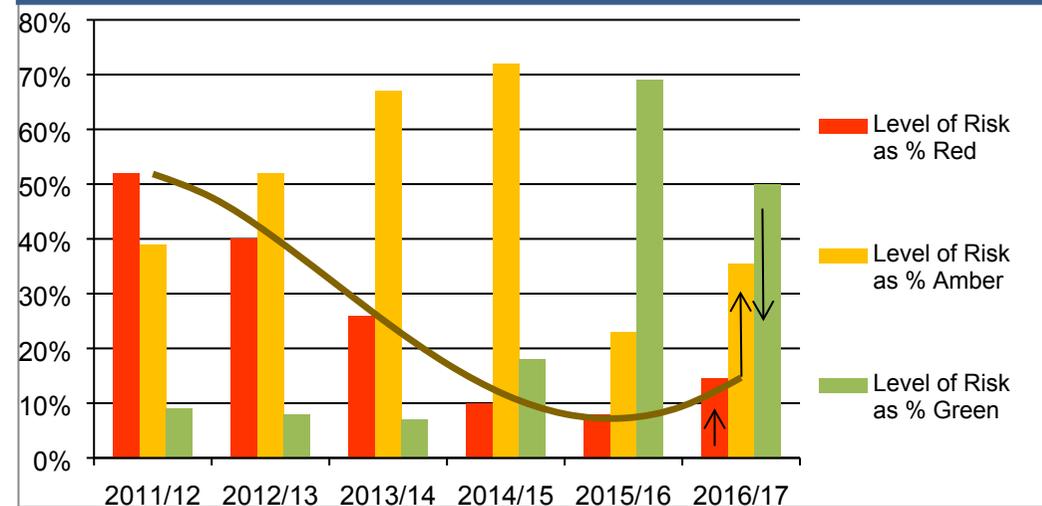
- Only **limited assurance** can be given that the framework of control is adequate. In 36% of areas examined, controls were not operating effectively.
- There has been a **further decline** in the number of audit reviews concluding that 'acceptable' or 'good' controls were in place from 82% in 2015/16 to 64% in 2017/18. This trend is worrying and means that the level of risk in the Council's control systems is increasing. (see right)
- The level of **implementation of Internal Audit recommendations is unsatisfactory**. Recommendations resulting from Internal Audit reviews are made in order to achieve improvement to the Council's control framework, therefore it is of concern that of the recommendations followed up during 2016/17, only 31% have been fully implemented, with 39% only partially implemented. 30% have not been implemented at all. Additionally, only 35% of our highest priority recommendations had been implemented.

This is likely to be reflective of the changing nature of the public sector and the continuing state of change being experienced across the Council as resources reduce. Whilst this change is necessary, and some loss of control is to be expected whilst new ways of working are established and embedded, a strong control environment is also crucial to ensure the resilience of the Council going forward.

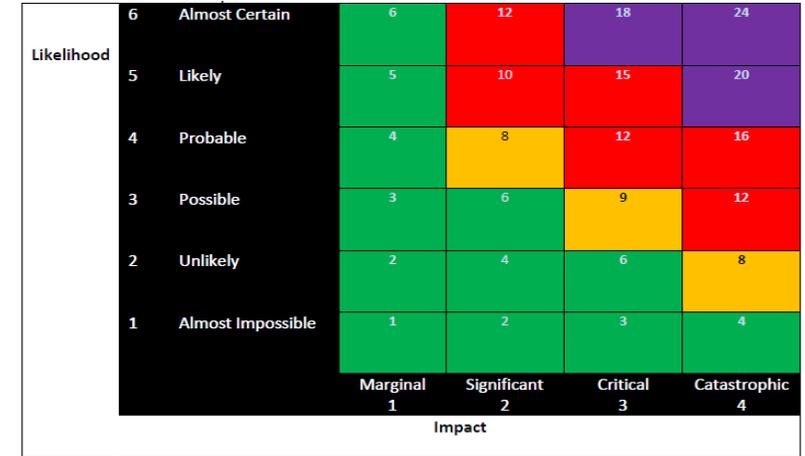
*Level of assurance on internal control between 2011/12 and 2016/17*



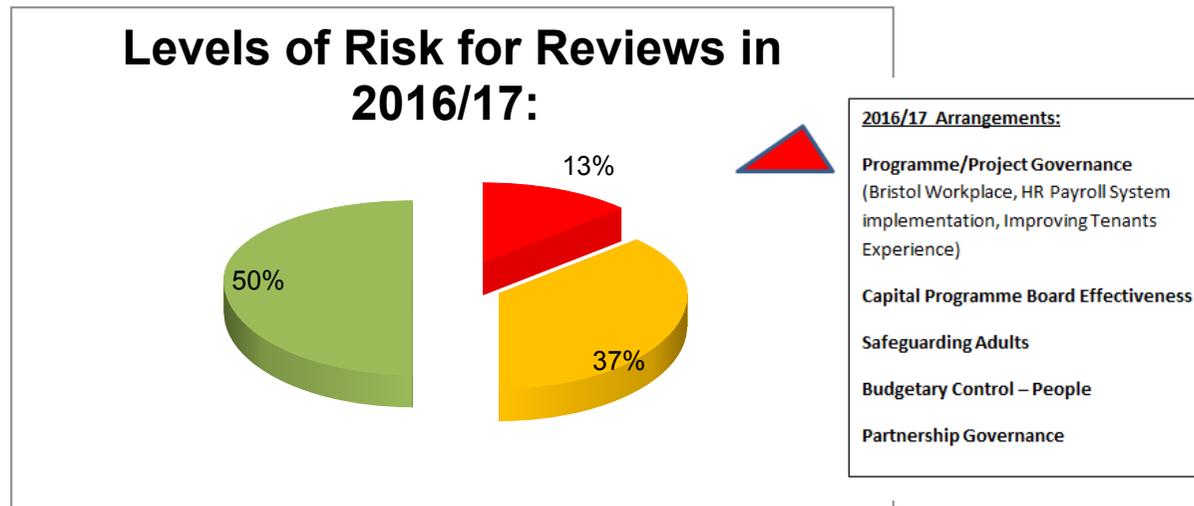
*Level of Risk Trend between 2011/12 and 2016/17.*



- 2.2 Our opinion is based on evidenced assessment of the control framework in a number of areas in accordance with our annual plan. Full details of the work we have completed can be seen in Appendix A together with the opinions we have formed for each review. For each audit review completed, an audit opinion is formed as set out in Appendix B.
- 2.3 Using the audit opinion as an indicator of how likely things are to go wrong and considering the impact of the area under review on achievement of the Council’s objectives, a level of risk to the Council is determined using the Corporate risk matrix (see figure on right). In making this assessment the guidance parameters in the Risk Management Policy are used
- 2.4 Full details of the opinions and risk levels formed for each review completed during 2016/17 and the associated risk level can be seen in Appendix A, which is summarised below:



Opinion	No of Audits
Good Control	7 (11%)
Acceptable Control	33 (53%)
Partial Control	22 (36%)
No Control	0



### 3. Areas of Risk Exposure:

- 3.1 In planning to be able to conclude an opinion on the whole risk management, governance and internal control framework, audit work is framed around 8 key lines of enquiry. Appendix A details which key line of enquiry each piece of work relates to. Our conclusions in each area are as follows:

#### Corporate Governance Arrangements:

A number of Internal Audit reviews (either planned or requested during the year) have identified issues around governance processes that needed improvement including:

- A need for stronger and more transparent decision making processes was identified in post programme review of the Bristol Workplace Programme.
- A review of the effectiveness of the Capital Programme Board found ineffective challenge of overspends and forecasting and insufficient information being provided to facilitate effective monitoring of projects.
- Two draft reports of arrangements in place when working with partners identified the need for stronger governance arrangements to ensure that Council (and partner) expectations are being met from the investments made in them and that risk and accountability is clear.
- Improvements were required in our process for declaration of interests by employees.
- Improvements to the complaints process were also identified.
- A gap in the whistleblowing procedures has also been identified and we have worked with the HR team to change these.

During the year, the Council was subject to an independent external review of the governance in place within the Council, more specifically, within its Change Programme. The outcome is well publicised and the Council has published its improvement plan to address the concerns raised.

#### Risk Management

Our involvement in facilitating risk management leaves us well placed to form a view on the robustness of risk management arrangements at the Council. Whilst the Council has a policy detailing its approach to risk management and a series of strategic risk registers (the Corporate Risk Register (CRR) and Directorate Risk Registers (DRRs) which have been updated during the year, the CRR has yet to be aligned to achievement of the new 2017/18 – 2021/22 strategy, which proposes changes in the way the Council provides its services, which will impact on the corporate risks faced by the Council.

Additionally, service planning is not yet consistently developed to help consideration of risk to embed. Directorate Risk Registers (DRR) have continued to be scrutinised by the respective Scrutiny Commissions, however linkage and escalation between the Directorate and Corporate Risk Registers could be improved and the review of risk registers needs to be iterative and ensure forward

looking consideration of risk.

An early audit of Adult safeguarding processes (a key mitigation to the Corporate risk around safeguarding) identified a back log of deprivation of liberty assessments and errors in information held regarding the prioritisation of cases. Additionally, statutory safeguarding training had not been delivered although we are aware that this aspect has now been addressed.

### Financial Control

A number of reviews around financial governance and control have been completed with mixed results.

- **Partial** control was concluded in the People Directorate Budgetary control – improvements to use of management information to support accurate budget forecasting is essential.
- **Partial** control was concluded in the General Ledger Movements review due to partial controls in areas such as the accuracy of accruals and the requirement for further guidance and training for budget managers.
- **Partial** control was concluded at draft reporting stage regarding the control of Purchase Cards as there was no central responsibility for the cards or any control over their issue.
- **Acceptable** control was found in areas such as **Payments to Day Care Centres** and **Housing Benefits** administration, although benefit overpayment recovery processes need improvement.
- **Bank Reconciliation** process, whilst having improved remains reliant on spreadsheets, which makes the process vulnerable to error.
- **Financial Regulations**- work on this has continued during the year, with a summary statement to be inserted into the Constitution when it is revised. A fully revised set of regulations is scheduled to be available by end of September 2017.
- **Grant Certification** - Full details of all the grant claims we have certified are included in Appendix (A). There were no particular issues raised with the grants we certified, however there have been issues with regards to the process for obtaining a certified grant claim, where the current finance check-list process has not been consistently applied. Additionally, this has increased the risk of allowable grant funding not being fully claimable.

### Change Programme and Project Management

During the year the team have worked with project teams for ongoing project and reported during the project life-cycle as follows:

- HR Payroll System Implementation – Red risks were reported regarding likely overspends and project delays. This project has now closed.
- Improving Tenants Experience Project – our second report to the project team advised them that we are currently unable to provide them with assurance that the project will deliver on time as issues around interfaces previously reported had yet to be resolved. Additionally concerns were raised regarding the quality of data for migration. The project team advise this has now been resolved but we have yet to confirm that. A revised implementation plan, agreed with the system provider, has not yet been made available to us as evidence that plans are in place to achieve the new implementation deadline.

Additionally, we completed a post project review of the Bristol Workplace Programme. Significant learning from this needs to be recognised in the new programme governance arrangements. Talks have already commenced with the Programme Management Office to ensure that processes include the escalation of audit concerns to the Delivery Executive for future programmes and to

ensure audit involvement in key projects at an earlier stage.

### **Procurement and Commissioning**

Reviews in two areas of procurement, identified improvements are required to strengthen the following aspects of procurement:

- Improvements required in tendering process including clarity in specification setting
- Significant use of waivers in the procurement of goods and services.
- Weaknesses in contract monitoring including the need for improved pre-planning prior to the end of contracts.

### **Information Security**

Three reviews in this area all concluded partial control:

- Network Security
- Website Resilience
- Cyber Security

### **Asset Management**

A review in this area concluded controls were generally acceptable. However improvements were still identified:

- Sale and Disposal of Council Property. This review identified that schemes of delegation and policies for sale and disposal of assets are out of date and in need of review. Valuations also need to be re-assessed where there is a significant lapse of time between the valuation and the final sale. There is also a need to raise awareness of money laundering matters within the property team.

### **Counter Fraud Arrangements**

The Council has a strong counter fraud policy and arrangement that are generally in line with best practice. A review of the Council's position related to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption needs to be reported to the Audit Committee in 2017/18. A proactive approach is taken to fraud which means that fraud risks are well understood and tackled appropriately. Whilst, like at all Council's, fraud occurs, arrangements are in place to ensure it is investigated and control improvements recommended where processes are found to be needing improvement. Fraud prevention controls were found to be good in the areas of homelessness and National Non- Domestic Rates (NDR) fraud and acceptable in the area of Right to Buy. Although not formally reviewed, we have worked with Housing staff to review fraud prevention methods for housing allocations and made recommendations to them.

- 3.2 In concluding audit reviews, where gaps in the control framework are identified, recommendations are made for improvement. It is the responsibility of management across the Council to ensure that those recommendations are implemented in line with the action plans and timeframes agreed when concluding each Audit Report. A quarter 4 follow up review of reports issued in year has identified issues with non-implementation of recommendations. Of the recommendations followed up during 2016/1, only 31% have been fully implemented, with 39% partially implemented and 30% not implemented at all. Additionally, only 35% of high risk recommendations had been implemented. Areas

where non-implementation has been identified will be escalated to Management via DLT's in 2017/18. During 2017/18, the audit team will concentrate on improving follow up and escalation processes to support senior management and the Audit Committee in ensuring that improvements are made.

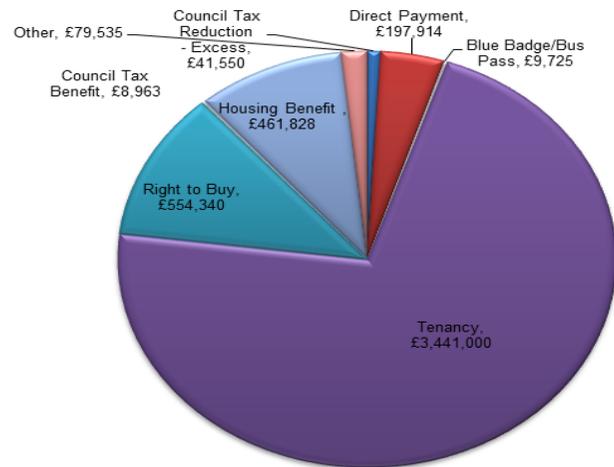
## 4. Internal Audit Service Performance and Contribution:

- 4.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to Members and management via its programme of work and also offers support and advice to both organisations on a range of governance, risk and control matters making recommendations to improve the value for money for the service under review. The value of this element of our work is difficult to measure. However, in addition the team also demonstrates value as follows:

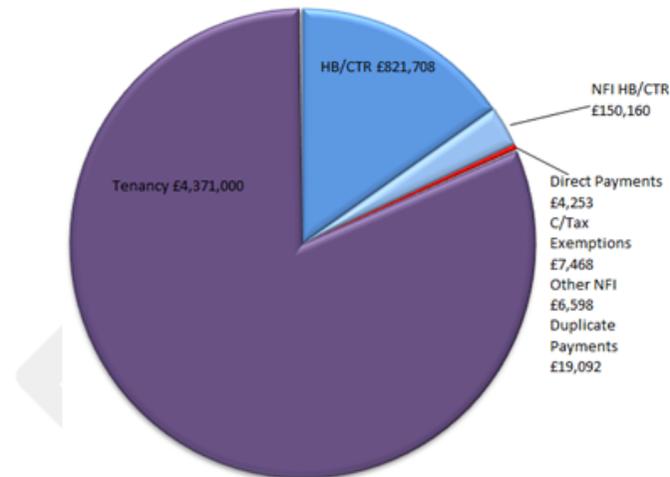
### Savings Identification:

- 4.2 The Internal Audit investigations team provide the Council's counter fraud response, covering not only the investigation of allegations of fraud but also proactive fraud work, value for money reviews and proactive fraud prevention work. Significant savings are generated from Counter Fraud work undertaken by the Internal Audit Investigations team, with a comparison against 2015/16 savings, are detailed below

*Potential Savings/Cost Avoidance identified in 2016/17*



*Potential Savings/Cost Avoidance identified in 2015/16*



- 4.3 The Investigations Team recovered 37 properties to be returned into housing stock in 2016/17 which wholly supports Mayoral objectives to increase the availability of Housing across the city. The tenancy fraud savings noted above are notional, based on a national estimated £93,000 cost avoidance per property. Notional figures are also used to calculate cost avoidance value for Right To Buy (RTB) properties recovered and Blue Badge/Bus Concessionary passes cancelled.
- 4.4 Our potentially recoverable savings for 2016/17 are down on the previous year at approximately £800,000 against a figure of £1,009,000 for 2015/16. This is due to a reduction in the Team's capacity and further work directed to RTB cases, where not only is the Council at risk of providing a large discount of on a property from its housing stock, it also loses that property for rental to those in need.

#### **Other Counter Fraud Work:**

- 4.5 The National Fraud Initiative is a national data matching exercise that is mandatory for all Local Authorities and involves matching key data-sets such as tenancy records, council tax records, personal budgets etc. across each other and other Local Authorities. Work has only recently commenced on the latest output and has identified savings of £176k largely in relation to Residential Care. £115k relates to Funded Nursing Care which is paid on behalf of the NHS £61k relates to care paid for by Bristol City Council. These figures are not included in figure (5) above but will be reported in 2017/18 reporting cycles.
- 4.6 The Investigations team is also on hand to investigate all fraud referrals. A number of other fraud/irregularity investigations were undertaken during the year, of which nine identified potential savings and resulted in one employee being dismissed. This included 355 Single Person Discount (SPD) and Council Tax Reduction (CTR) cases that were initially reviewed and reduced to 105 cases for further investigation. Additionally, 17 cases were referred to the Department of Work and Pensions (DWP) for further action.
- 4.7 The Team continues to work with the Police and the DWP, providing information to assist their investigations. Additionally, the team receive requests to share our best practice in respect of their tenancy fraud success – notably, this year, members of the team were asked to present at a 'Housemark' sustainability conference.
- 4.8 The Team worked with HR to develop a process for reporting and recording 'Whistleblowing' allegations, as well as reviewing the Money Laundering Policy and guidance. A revised E Learning fraud module has been developed which will be rolled out in early 2017/18 and work is also underway to provide fraud training to social workers and schools.

#### **Grant Certification:**

- 4.9 Where a grant giving body requires an internal audit certificate before releasing payment, the team carries out work to verify and certify amounts that the Council can claim. Without this certification, grants may become repayable. 13 such grant claims were certified during 2016/17.

## Performance Against Targets:

- 4.10 Overall, it has been a challenging year for the Internal Audit Service with a number of vacancies carried throughout the year. We have however been able to meet our target for the delivery of statutory assurance work, including certification of all the grants that required Head of Internal Audit sign-off.
- 4.11 Internal Audit completes an annual self-assessment of its compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note (LGAN). The purpose of the self-assessment is firstly to provide assurance to the Audit Committee and management that Internal Audit is compliant with the PSIAS and that consequently they can rely on the work of Internal Audit, and secondly, to further enhance delivery of the internal audit function through the identification of opportunities for development.
- 4.12 Overall, the self-assessment has concluded that Internal Audit was generally compliant with the PSIAS requirements but areas for improvement have been identified and included in a draft Quality Assurance and Improvement Plan which will be finalised and brought to the Audit Committee to monitor improvements:
- The Head of Internal Audit currently facilitates the corporate risk approach and the collation of assurances/evidence to support the Annual Governance Statement. Whilst this work aligns well to the work undertaken to by Internal Audit, it does mean the team is functionally involved in these areas which could limit its independence in these areas. However, the Annual Governance Statement is assessed by External Audit providing an independent view on the accuracy of the statement and at such times when risk management arrangements are felt to be robust, an independent external review of those arrangement will be commissioned
  - Resourcing and skills within the team are currently being re-assessed given the changing nature of the organisation. Once this is complete, a final structure for delivery of the service and a training strategy will be developed
  - Improvements are required to our reporting, follow up and escalation policy and processes. This will need to ensure going forward that where recommended improvements to the control, risk and governance framework are made and agreed, non-implementation is brought to the attention of senior management and the Audit Committee and managers held account for this.
  - The team has yet to develop assurance mapping for governance and risk processes to ensure that all sources of assurance are understood.
  - Performance appraisal of Head of Internal Audit has not happened.
- 4.13 A peer review of Internal Audit has been commissioned in 2017/18 to provide the required external assessment of compliance with PSIAS.
- 4.14 In a move to monitor output/outcome rather than input/process measurement, we have reduced our reportable performance targets to the following: For 2016/17 our year end performance was as follows:

<b>Value for Money Indicators</b>	<b>2016/17 Actual</b>	<b>2016/17 Target</b>	<b>2015/16 Actual</b>
<i>High/Medium recommendations Implemented or Escalated</i>	31%	90%	82%
<i>No. of Properties recovered by tenancy fraud work.</i>	37	40	47
<i>% of planned Statutory Assurance work completed/in progress</i>	90%	90%	90%
<i>% of QAQs with a score of 4 or more (Customer Satisfaction)</i>	92%	90%	85%

*Table (2) Internal Audit performance against Performance Indicators for 2016/17*

4.15 The Team has performed well in the following important areas:

- % of statutory audits completed or in progress at the year end was on target. This ensures we are positioned to inform our opinion on the overall control, risk and governance environment.
- Our customer satisfaction ratings have increased from 2015/16.

4.16 There are some areas where we need to improve our efforts in 2017/18 and going forward:

- Implementation or escalation of recommendations – paragraph 3.2 provides fuller details
- Tenancy recoveries are down on the previous year. This was due in part to a particularly strong year in 2015/16 but also the temporary loss of expertise in tenancy fraud work for part of the year. Additionally, a developing trend in court for stronger evidence before eviction and the loss of a dedicated legal resource to advise on pursuing fraud cases had made it more difficult to progress some cases. The investigations team were functioning on reduced resources due to the spending freeze in the last quarter of the year due to the loss of 0.5fte of an audit manager.

4.17 The following table demonstrates that actual coverage in terms of work type was broadly in line with that planned, however throughout the year; the work programme was continually re-assessed to ensure coverage was correctly prioritised:

	% Planned	% Actual
Assurance	39	40
Fraud and Value for Money	46	47
Consultancy/Risk Management	9	6
Income Generating	2	3
Audit Service Development	4	4
Total	100	100

*Table (3) Planned coverage against Actual for 2016/17*

## 5. Escalation Matters:

- 5.1 We have been working with DWP management to improve routing of cases referred to ensure they are dealt with correctly as fraud rather than non-compliance. We have a number of concerns which we are planning to bring to the attention of the DCLG to improve the approach to investigation of benefit fraud.
- 5.2 There are no additional matters to escalate other than those detailed within this report.

## 6. Resources:

- 6.1 During 2016/17, the Internal Audit Service continued to carry vacancies through the spending freeze period. This reduced capacity has impacted on the coverage the service has been able to provide, although we have met our target for the completion of statutory work.
- 6.2 The Service continued to support its apprentice, who has gone on to secure a job elsewhere within the Council, as well as supporting our Audit Assistant, who has now progressed further up the career ladder outside of the Council. The resulting number of vacancies has allowed the Service to look again at the structure and determine how best to staff it going forward, in order to ensure it is fit for purpose in the continually changing environment within the Council. Recruitment to senior posts will be taking place within the first quarter of 2017/18.

## 7. Looking Forward:

- 7.1 The Internal Audit Service looks forward to the many challenges facing its own service and across the Council during 2017/18. Specifically:
- Developing and actioning our Quality Assurance and Improvement Programme (QAIP), including the actions resulting from the independent external Governance review mentioned in section 3. The Team has recently been joined with a temporary resource at strategic level to assist in enhancing its service and ensure it is well placed to support the Council going forward in the current risk environment.
  - Targeting a Follow-up and Escalation programme that ensures our recommendations are implemented in a timely manner and managers are held to account for neglecting their responsibilities in terms of internal control. We will be introducing more robust processes for reporting and escalating non implementation to management and Members.
  - Refocussing our involvement in the highest risk change projects/programmes so that we are involved continually during the project life-cycle and our work adds value as the project progresses rather than reviewing projects that have failed for post project learning.

- Strengthening Corporate Risk Management arrangements to ensure they are forward looking rather than retrospective, working with management to find ways to provide greater insight into the Council's risks and how they are managed, as well as embedding risk as business as usual.
- Strengthening the in-year input to the review of the governance framework by implementing a continual in year review with managers and some budget holders to inform the Annual Governance Statement.
- Working with the Audit Committee to support and strengthen its role in pursuance of robust risk management, control and governance arrangements across the Council.
- Further proactive fraud exercises designed to identify savings for the council and developing a more analytical approach to the majority of audit reviews, in order to provide maximum insight into Council operations.
- Develop our working relationship with regard to the Council's wholly owned companies, and establish the level of assurance we can provide.
- Continuing to monitor the impacts on the control, governance and risk management framework resulting from budget reductions across the Council.
- Developing our understanding of the control and governance arrangements for the West of England Combined Authority and how it will impact on the Council's governance and risk arrangements.

## 8. Context and Compliance:

8.1 Internal audit 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 independence is achieved by reporting lines which allow for unrestricted access to the Elected Mayor, Chief Executive, Strategic Leadership Team, which includes the S151 Officer, and the Chair of the Audit Committee. The fluidity of the organisation, however, has resulted in limitations being imposed on the work of Internal Audit, specifically in its reporting arrangements.

8.4 Thus, with the changing environment in which the Council has operated in order to achieve effective change, the reporting lines for Internal Audit reports became somewhat blurred during the year, resulting in a loss of impact from the issues identified by the reviews. Internal Audit is, however, currently reviewing its reporting practices with a view to ensuring this limitation does not occur in the future.