



BRISTOL INTERNAL AUDIT

APPENDIX 1

INTERNAL AUDIT: ANNUAL REPORT 2017/18

Date: May 2018

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Contents:

Section No.	Title:	Page No.
1	Purpose of the Annual Report	2
2	Head of Internal Audit Opinion and Key Headlines	3
3	Areas of Risk Exposure	4
4	Internal Audit Service Performance and Contribution	10
5	Escalation Matters	13
6	Resources	14
7	Context And Compliance	14
9	Appendix A: Summary of Internal Audit work completed or in progress during the period.	
10	Appendix B: Summary of Audit Opinions Used.	

1. Purpose of this Annual Report

1.1 This Annual Report provides a summary of the work completed by Internal Audit (IA) during 2017/18. Its purpose is to:

- Provide the annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance; risk management and control framework during 2018/19 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 2017-18 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:

- **Limited assurance** only can be given that the framework of control is adequate. Overall, 63% of reviews undertaken concluded that reasonable assurance could be provided that controls were in place and operating effectively. In 37% (36% during 2016/17) of reviews, limited or no assurance could be provided that controls were in place and effective. Table 1 demonstrates that the downward trend of previous years has not improved.
- At the start of each year, a sample of control systems is selected for review to inform the annual opinion provided above. From these reviews, only 44% of systems and processes sampled concluded that reasonable assurance could be given that controls were in place and operating effectively. (Table 2)
- Audit work at a selection of local authority maintained schools also concluded only limited assurance could be provided regarding the control framework in 50% of schools (and related areas) examined. (Table 2)
- More positively, follow up work completed in areas where the control framework had previously been identified as requiring improvement has demonstrated an increase in the level of implementation of recommendations. This is reflective of a refreshed commitment to improving controls and governance across the Council and enhanced reporting arrangements by the team in drawing senior management attention to improvements required. Para 3.3 refers further.

Table 1

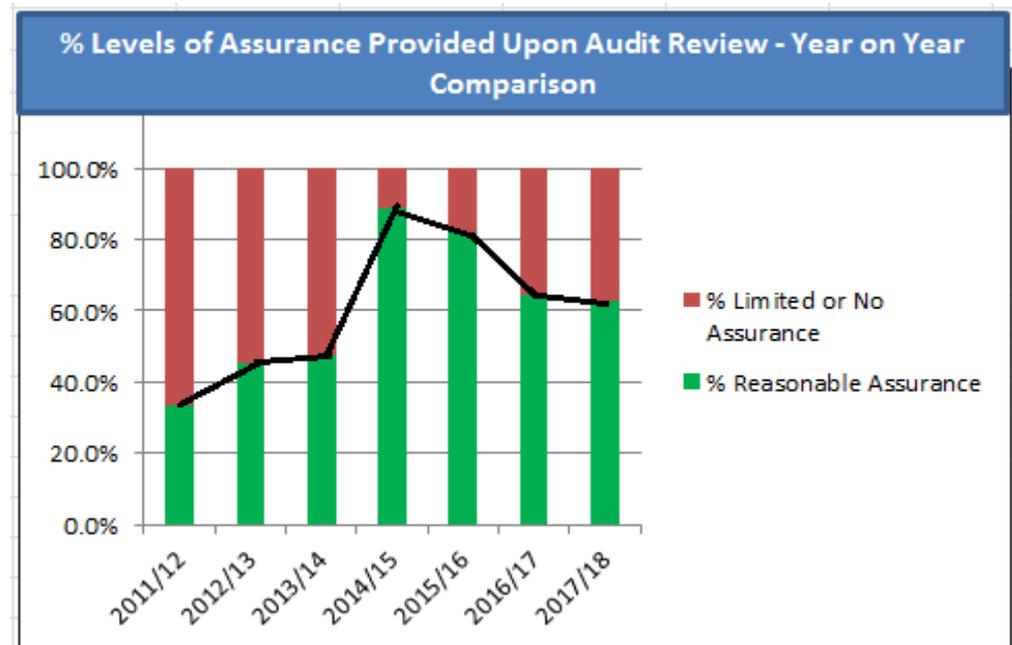


Table 2

% of Reviews Concluding Reasonable Assurance by Work Programme Area					
Audit Type	No of Opinions	Limited or No Assurance	Reasonable Assurance	Total	Reasonable
Planned Programme	39	22	17	39	43.6%
Grants	28	2	26	28	92.9%
Schools	10	5	5	10	50.0%
Follow up	6	2	4	6	66.7%
Total	83	31	52	83	62.7%

- 2.2 Our opinion is based on evidenced assessment of the control framework in a number of areas in accordance with our annual plan. It should be noted that in devising the annual plan, a risk based approach is taken and a such areas of highest risk are targeted for review of the mitigation and controls in place in these higher risk areas. Full details of the work we have completed that has informed this opinion can be seen in Appendix A together with the assurance levels we have been able to provide for each review. For each audit review completed, the assurance level is determined based on the level of control found as set out in Appendix B.
- 2.3 Using the audit opinion/assurance level 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. In making this assessment the guidance parameters in the Risk Management Policy are used. Those areas in Appendix A where the level of risk is indicated as red should be considered for inclusion in the Corporate Risk Register for monitoring and review in accordance with the refreshed approach required by the new Risk Management Policy.

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	2017/18 Assessment	2016/17 Assessment
<p>Reviews in the areas of complaints, business case robustness and controlling documents on the web page (many of which relate to governance and control requirements) all concluded reasonable assurance that controls were in place and effective.</p> <p>Additionally, progress has been made to review the Council's Code of Corporate Governance, which was recommended for approval at the Audit Committee and that is due to be presented to full Council in May 2018.</p> <p>However, a number of Internal Audit reviews planned during the year have identified issues around governance processes that needed improvement including:</p> <ul style="list-style-type: none"> • Partnership Governance. A review of the Council's approach to working in partnership identified that partnership arrangements have been set up with varying degree of formality. Governance and risk management arrangements are inconsistent in the absence of clearly defined governing principles. • Decision Making. An audit to review the quantitative and qualitative factors of reports prepared to inform decision making had identified shortfalls in guidance to authors and quality reviewing of reports. However, prior to finalising the report, and in response to officer concerns that the decision pathway was complex and time consuming, the decision pathway and quality assurance processes were reviewed. Consequently, the audit report was not formally issued and the effectiveness of new arrangements will be re-reviewed in 		

2018/19 once they have had time to embed. Issues with the decision pathway in place during 2017/18 have been highlighted and evidenced as part of the Annual Governance Statement review process.

- **Whistleblowing Procedures.** Whilst the Council has whistleblowing processes in place, concerns were identified around the level of awareness of these and the need to enhance regular communication to support employees in reporting concerns. There was also evidence that investigations into matters reported required greater prioritisation and a process which enables lessons to be learned.
- **Capital Programme Board Follow Up.** An oversight board (the G&R Board) for capital project planning and implementation had been established however, at the time of the audit, its terms of reference were unclear. Concerns remained regarding the quality of reporting of project progress and those in exception and accuracy of forecasting spend on major projects. These arrangements, through the G&R Board still required to embed at the time of the audit.

Risk Management

2017/18 Assessment

2016/17 Assessment

At the start of 2017/18, Internal Audit held a role in facilitating risk management. Following an external peer review of compliance with the Public Sector Internal Auditing Standards (PSIAS), this role ceased primarily for reasons of independence but also due to resource availability. As such the team is not technically positioned to provide an independent assessment on the Council's risk management arrangements during 2017/18. However, the following positive steps are noted:

- The Council's Risk Management Policy was reviewed, endorsed by the Audit Committee (September) and approved by Cabinet (December 2017)
- The Corporate Risk Register was refreshed using new methodologies required by the new policy and received by the Audit Committee in November 2017. It was also received by Cabinet in January 2018.
- High level strategies such as the corporate strategy and the budget included a risk assessment to delivery.

During 2017/18, however, the the following practices were not consistently applied to assist with embedding Risk Management at all levels and across the Council:

- **Quarterly review of Corporate and Directorate Risk Registers.** This lapsed during the year. Whilst development work was completed in respect of the Corporate Risk Register, Directorate Risk Registers were not maintained consistently.
- **Service Planning** – Risk assessment and review in service planning will provide a means to ensure that all service managers consider risks to the delivery of their services. However, the practice of service planning was not consistently required in 2017/18.
- **Resourcing Risk.** A dedicated and specialist resource for risk management was not in place to drive forward improvements and assist managers and advise Members on risks and issues management. As such, whilst the policy was reviewed and approved, it has not been officially launched and no training has been provided to colleagues. An improvement plan has not yet been drafted to provide direction on how risk management can become more effective going forward. An interim resource has been sourced early in 2018/19 to pilot the need for a permanent role.

Reviews of some of the mitigations contained in the CRR were also completed with the following results:

- **Safer Recruitment processes** – concluded limited assurance as pre-employment checks had not been consistently carried out.
- **Business continuity planning** follow up – concluded that only 50% of recommendations had been implemented
- **Managing the risk of provider failure regarding adult social care** - concluded reasonable assurance that this area is being managed effectively.

Financial Control

2017/18 Assessment

2016/17 Assessment

A number of reviews around financial governance and control have been completed with mixed results. In total 58% of reviews in this area concluded that reasonable assurance could be provided. This compares favourably to 43% of reviews in 2016/17.

Reviews in the following areas provided reasonable assurance that control arrangements are in place and effective:

- Payroll
- NNDR Collection
- Bank Reconciliation
- CHAPs Automated payment system

Additionally, testing in support of grant claims largely concluded that evidenced spend is in accordance with grant terms and conditions which enabled grants to the value of £30m to be claimed by the Council.

Key areas of risk exposure included the following, details of which have all been provided to Audit Committee previously:

- **Accounts Payable**
- **Accounts Receivable**
- **Foster Care Payment Processes**

In addition, a themed review of the approach taken by the Council and **schools** to manage forecast deficits concluded only limited assurance could be provided.*

Whilst strategic level Financial Regulations have now been developed and are due to be approved by full Council in May 2018 as part of the Constitution Review, detailed level approved procedures have yet to be reviewed, updated and re-issued to reflect current arrangements at the Council.

Change Programme and Project Management

2017/18 Assessment

2016/17 Assessment

Although the audit of programme and project management requires further coverage, the following conclusions and issues were identified:

- **Housing System Implementation.** A formal audit has not been completed in this year but a watching brief has identified further delays in implementation.
- **GDPR Project Governance.** Significant shortcomings were identified in September 2017 of the need to rapidly escalate the project

management and governance of the Council's GDPR preparations and this was reported in an urgent issues report.

Procurement and Commissioning

2017/18 Assessment

2016/17 Assessment

The Audit Plan placed specific emphasis upon Procurement and Commissioning in 2017/18.

One of the reviews related to Contract renewals and awards and positively concluded that compliance with the requirements for tenders and the methodology for assessment and award could be demonstrated. Several other reviews in this area, however, have concluded only limited assurance can be assigned on the Council's arrangements relating to:

- **Contract Management.** Standards of contract management were found to be inconsistent across the Council
- **Contract Waivers.** The number of waivers from Procurement Regulations continued to be high and the waivers process had not been consistently applied. The need for many of them could have been avoided with effective contract planning. Ongoing and proactive work was underway to resolve these issues at the time of the review but it was not complete.
- **Contract Register/Publication.** No assurance could be provided regarding completeness of the contracts register and whilst tender invitations were advertised, contract award notices were not being published as required.
- **Adult Care Provision Commissioning.** Whilst leadership and an emergent strategy were in place, this was not reflected in operational plans and review gateways at appropriate stages of the commissioning process were not in place.
- **Purchase Cards.** No clear responsibility for the purchase card system had been assigned and processes to ensure on going relevance for card holders were not in place. Documentary evidence to support card spend was not consistently held and processes did not support identification of value for money for purchase card spend items.
- **Cash Receipting System Contract Management.** The contract had not been retendered for many years in line with Procurement Regulations and no assurance could be provided that the contract was delivering value for money to the Council.

Information Technology and Security

2017/18 Assessment

2016/17 Assessment

A review of the **Future State (of ICT) Assessment*** concluded that the assessment delivered is comprehensive, sufficiently detailed, reflects the current state of BCCs ICT services and recommends a future state of ICT services that is modern, flexible and stable. However, despite the comprehensiveness of the assessment, there are substantial risks inherent in delivering such ambitious and complex change. The Council need to consider its to maturity, capacity and capability to govern and deliver the highly technical change required at a time when so much other change is taking place in the wider Council.

Further reviews all concluded limited assurance:

- **Digital Delivery***. The Councils ambitions for greater digitisation of services need to be supported by robust and stable digital leadership,

a clear Digital Strategy and digital literacy at all levels.

- **GDPR Readiness.** Following the project governance review referred to above, a review looked at the preparedness for delivering GDPR to the legislative deadline. This concluded several areas of concern but management have now escalated the priority given to ensuring the Council's compliance.
- **Operations Centre On Premise Security and Environmental Controls*.** Improvements over resilience, physical and environmental controls are required. The audit found that harder segregation from the BCC environment would improve security and resilience, and that responsibility for the security of the operations centre is unclear. Further, an assessment of information security risks and controls has not been carried out, including an assessment of accreditations relevant for their commercial aspirations.
- **Finance System Resilience and Security.** Key areas of concern included the support and resilience of the host platform, weaknesses in the change management/upgrade processes and review of user accesses for continued relevance to role.
- **Data Loss Prevention System Security.** Implementation of the system was not preceded by a privacy impact assessment and was not communicated effectively to those affected. A follow up audit identified that management had again taken swift action to delete the system and the data held to resolve issues of data protection compliance.

(*Reports in draft)

Asset Management

2017/18 Assessment

2016/17 Assessment

Reviews of the Markets operation and checking employment status/right to work provided reasonable assurance that control arrangements are in place and effective. However, two reviews in this area concluded limited assurance:

- **Housing Void Management:** Time taken to relet Council properties was found to be higher than expected and the inaccuracy of management reporting on voids was identified.
- **Investment Property Portfolio.** Backlogs in rent reviews and renewals were identified. A Property Investment Policy had not been developed and over optimistic rental increase aspirations were reported.

Counter Fraud Arrangements

2017/18 Assessment

2016/17 Assessment

The Council has a strong counter fraud policy and a proactive approach is taken to fraud. Whilst, the risk of fraud is ever present, arrangements are in place to ensure it is investigated and control improvements recommended where processes are found to be needing improvement. Fraud prevention control reviews were completed with the services concerned in the areas of Right to Buy Application processes and right to Buy Discounts Recovery. Controls were found to be good in both areas. Additionally, a further successful exercise has been completed by the Local Taxation Team to address single person discount fraud and training and awareness sessions have been delivered to caretaking and benefits staff.

An assessment against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption was completed during the year and concluded that the Council had a good level of compliance and had put in place arrangements to meet many aspects of the Code. There were some areas of weakness that could undermine resilience and further opportunities to develop and extend counter-

fraud arrangements. An improvement plan was developed following this assessment and good progress has been made to remedy the shortfalls. An update on this is provided in the Annual Fraud Update 2017/18 also being considered at this Committee.

However, investigation of a number of cases referred to the team have been delayed due to the level and type of referrals to the team and the other work priorities which is beneficial (See Annual Fraud Report) to the Council in the context of the resource available.

- 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.
- 3.3 During 2016/17, the level of implementation of recommendations was very low at just 31% full implementation of recommendations. A further 39% had been partially implemented. This matter was escalated to management and the Audit Committee in the 2016/17 Annual Report and in the Council's Annual Governance Statement. Internal Audit have worked with Directorate Management to ensure this improves by attending senior management meetings for each directorate on a regular basis to highlight issues and escalate matters of concern. It is now pleasing to report a significant increase in the number fully implemented recommendations evidenced when follow up work is completed. Details are provided below:

Table 3

Recommendations	Implemented	Partially Implemented	Not Implemented
2017/18	57%	31%	12%
2016/17	31%	39%	30%

4. Internal Audit Service – Contribution and Performance:

- 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 and Value for Money:

- 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, and proactive fraud prevention work. Full details of the work and benefits delivered by the Investigations team are provided in a separate report at this Committee – the Annual Fraud Update 2017/18.
- 4.3 Significant benefits are generated for the Council from Counter Fraud work undertaken as detailed below:

- **Recoverable payments in excess of £1m have been identified.** This is greater than the budget for the entire Internal Audit Section demonstrating that, if recovered, these savings will more than pay for both the investigations and the assurance services provided by the team.
- **26 Council housing properties have been recovered** following investigation of tenancy fraud or abuse.
- **9 Right to Buy applications have been cancelled.**
- **11 false tenancy applications or successions have been cancelled.**

Grant Certification:

- 4.3 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. 28 such grant claims were certified during 2017/18 with a value in excess of £30m. Details are provided in Appendix A.

Consultancy and Advice:

- 4.4 As well as completing planned audit reviews, there are times when control issues occur and management request an investigation requiring control failings to be identified and remedied. In 2017/18, 13 such requests were dealt with (including issues relating to previous financial years) as detailed in Appendix A (Adhoc Work Requests), 12 of which have been concluded with reports/advice to management for improvement or resolution of the issue.
- 4.5 The team also provide ad hoc advice and guidance across the Council to assist colleagues with ensuring control and governance arrangements are considered in developing processes/policies etc.

Performance Against Targets:

- 4.6 Performance of the Internal Audit Team is measured and monitored throughout the year. Performance is summarised in Table 4 below:

Table 4

	2017/18 Actual	2017/18 Target	2016/17 Actual
<i>% of planned work completed/in progress</i>	86.0%	90%	90%
<i>High/Medium recommendations Implemented</i>	68%	90%	31%
<i>No. of Properties recovered by tenancy fraud work.</i>	26	37	37
<i>% of QAQs with a score of 4 or more (Customer Satisfaction)</i>	77%	90%	92%
<i>% of Positive Responses in respect of perceived benefits and value of Internal Audit work (Management perception)</i>	71%	90%	N/A

% Planned Work Completed/In Progress:

- 4.7 A significant number of ad hoc work requests in the early part of the year coupled with significant resourcing pressures (detailed at section 6 below) saw the team having to significantly review and revise the plan at the mid-year point in agreement with management and the Audit Committee. Such pressures have continued in the later part of the year and further amendments have been made to the plan. However, 86% of the revised plan has been delivered within the year which has formed the basis of the opinion provided above.

High/Medium Recommendations Implemented: (Refer also to Paragraph 3.2 for fuller details.)

- 4.8 Follow up work is completed for all high and medium priority recommendations identified for audit work that concludes a red or amber level of risk. Implementation of recommendations is a key measure of the team's effectiveness in engaging with management to secure control framework improvements.
- 4.9 During the year, the team have completed 25 follow up audits to confirm the extent to which the 225 recommendations made in the original audit reports had been implemented. Whilst performance against this indicator is not yet to target, the rate of implementation has more than doubled when compared to 2016/17. This demonstrates a significant improvement and is reflective of work done by the team to raise the

profile of its work and also the level of senior management support to improving control and governance arrangements where deficiencies are identified.

Tenancy Recoveries:

- 4.10 Tenancy recoveries are down on the previous year. This level of recovery, however, equates to a nominal saving to the Council of £2.4m (as per basis recommended by the Cabinet Office). This was due in part to a developing trend in court for stronger evidence before eviction. The team, however, are currently reviewing the approach to presenting cases to the court and are also reviewing their approach to ensure targets are achieved going forward. The Annual Fraud Update 2017/18 provides further detail.

Customer Feedback Measure:

- 4.11 At the end of each audit review, a Quality Assurance Questionnaire (QAQ) is sent to the auditee to request feedback on their experience of Internal Audit during the review. The aim is to use this information to inform service improvement if themes are identified. Questions scoring 4 (out of 5) or above are lower than target this year. However, return rates are low and cannot be relied upon as a true measure of customer satisfaction as one 'low' score significantly affects the overall result. Resource restrictions have meant that chasing non-returns of these surveys has not been a priority for the team in the current environment.
- 4.12 In addition to the QAQ surveys, an annual perception survey, for the first time, has been completed requesting views of senior management and a selection of Members on the quality of Internal Audit services. The questions are intentionally challenging for the service and the responses and the comments received will be utilised as part on the continuous improvement for the service.
- 4.13 There was a 35% response rate and a summary of the key responses were:
- 71% strongly agreed/ agreed that Internal Audit (IA) adds value with the work delivered
 - 71% agreed that IA works with the Council to assist in achieving objectives and managing risks
 - 86% strongly agreed/ agreed that IA consistently demonstrates competence and due professional care
 - 29% disagreed that reports are provided on a timely basis.

- 4.14 The survey requested any additional comments and all comments received are replicated below:

“As a new member of staff it is difficult for me to comment on past history. I do think the Audit service is trying to be more responsive and add value in what it is trying to do.”

"I feel you are under resourced at a time when the Council needs this type of work most."

"Annual Governance proforma for Services and Divisions is a good process and much more robust than practices in the past."

"Timeliness has been an issue in relation to a piece of work, with work in potential fraud taking longer than expected. Audit colleagues try hard to gain engagement with service provider managers who often prioritise other aspects of their work, I recognise that this is challenging."

"My major concern is the lack of up to date communication when a significant investigation was required. This has been much improved of late."

Peer Review Results:

- 4.15 During the year, an external Peer Review of the team's compliance with Public Sector Internal Audit Standards was completed. The results were that the team generally conform to the standards. Areas of improvement were identified and an action plan developed to address the issues highlighted. Full details were provided to management and the Audit Committee in March 2018 and progress against action plan items will be monitored and reported through 2018/19.

5. Escalation Matters:

- 5.1 Summaries of audit work completed have been provided to the Committee throughout the year and have identified areas that have required escalation. Significantly, the Committee have received assurances from the Senior Information Risk Officer (SIRO) regarding GDPR and arrangement in place to ensure preparedness.
- 5.2 There are no additional matters to escalate other than those detailed within this report.

6. Resources:

- 6.1 During 2017/18, the Internal Audit Service continued to carry vacancies pending a team skills assessment and structural review. During this review period, the team has been supported by short term agency professionals. Delays in completing this review means that this arrangement will continue into 2018/19 with 6.7 vacancies currently held with agency cover back filling 3 of those. It is now anticipated that the review will be completed and the team resources required established by 1st October 2018.
- 6.2 An Apprentice recruited in the early part of the year has now left the team and a further apprenticeship opportunity is currently out for recruitment.

7. Context and Compliance:

- 7.1 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).
- 7.2 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"
- 7.3 Internal Audit independence is achieved by reporting lines which allow for unrestricted access to the Elected Mayor, Head of Paid Service, Senior Management Boards, which includes the s.151 Officer, and the Chair of the Audit Committee.
- 7.4 The Chief Internal Auditor can confirm there have been no restrictions on the scope of internal audit work or reporting of audit findings during 2017/18.