



BRISTOL INTERNAL AUDIT

INTERNAL AUDIT: ANNUAL REPORT 2019/20

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1. Purpose of this Annual Report

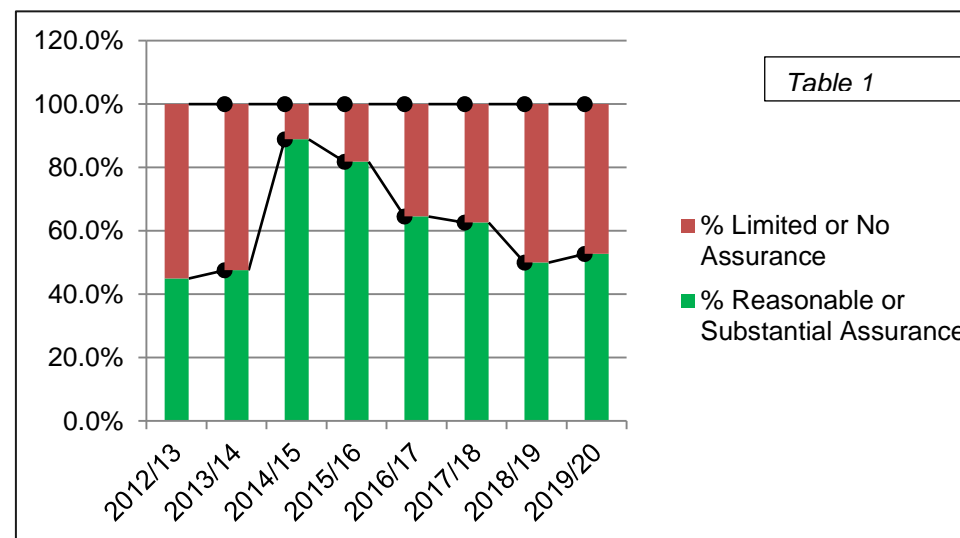
1.1 This Annual Report provides a summary of the work completed by Internal Audit during 2019/20. Its purpose is to:

- Provide the annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance; risk management and control framework during 2019/20 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. Internal Audit Opinion and Key Headlines:

2.1 This report provides a summary of the work undertaken by Internal Audit in 2019/20 and the results of that work. From the work undertaken by Internal Audit during the year, our overall opinion on the adequacy and effectiveness of the Council's arrangements for Corporate Governance, Risk Management and Internal Control is that:

- **Limited Assurance** can be given that in 2019/20, the Council's systems of internal control, governance and risk management were adequate and operating effectively. This opinion reflects the fact that 47% of the internal audit reviews completed during the period under review had a limited assurance opinion and identified some control weaknesses that present risk to the Council. Whilst it is acknowledged that Bristol City Council is a complex and ambitious organisation with many priorities there are further improvements required to strengthen the control environment.
- Whilst our opinion is similar to last year, it must be noted that a positive trajectory to improvement (*Table 1*) is starting to emerge following improvement initiatives and increased collaboration between internal audit and senior management. One of those key improvements saw Internal Audit and senior management reviewing all 2017/18 and 2018/19 outstanding management actions resulting in 76% of those actions being immediately closed which represents significant progress. Senior management have continued to work towards clearing the remaining actions.
- Clearly, this improvement trajectory needs to be sustained in 2020/21 to enhance assurance that control, risk and governance arrangements are effective across the Council. In addition to prioritising key areas of improvement, the management processes for monitoring and reporting the implementation of agreed management actions need to be fully embedded across the organisation.



2.2 Full details of the audit work we have completed that has informed this opinion are in **Appendix A**, together with the assurance levels we have been able to provide for each review. As well as the results of our own work, we have also considered other sources of assurance available to us for example, management assurance statements, internal oversight function reporting and independent inspections and reviews.

Impact of Covid 19 on Internal Audit Delivery and Opinion

2.3 In January 2020, the outbreak of the Coronavirus was declared an international public health emergency by the World Health Organisation. Due to the nature of its role, Internal Audit continued operating throughout the period of the crisis and emergency measures, ensuring that Internal Audit assurance activities did not disrupt critical operational areas. Internal Audit's approach to the completion of 2019/20 work was to

focus on the completion of key activities to support the Internal Audit Annual Report and Annual Governance Statement as well as providing ongoing support and advice ensuring that there were appropriate frameworks for managing emergency cash payments to businesses and individuals. This did not impact on Internal Audit's ability to provide the required opinion in respect of 2019/20. However, the impact of Covid-19 will be felt in 2020/21 and will have significant consequences for Internal Audit and the Council. The changes in working practices and methodologies required in relation to Internal Audit are detailed in the revised 2020/21 audit plan which was approved by the Audit Committee in May 2020.

3. Areas of Risk Exposure:

3.1 Appendix A provides details of all work completed by Internal Audit and the conclusions from this work. Where limited or no assurance (those marked in amber) has been concluded, these areas require improvement to ensure governance and control arrangements are strengthened going forward. Key areas to note are:

- Procurement and contracts
- Commercialisation
- Risk Management
- SEND Case work processing
- Project Management
- Direct Payments
- Debt collection
- Information Security

3.2 In addition, management self-assurance statement completed as part of the Annual Governance Statement process also identified the following areas as requiring improvement:

- Mandatory training completion
- Awareness and monitoring of actions in the Organisation Improvement Plan
- Consistency with which risk registers are completed
- Health and Safety Plans completion
- Consistency in General Data Protection Regulation compliance in certain areas.
- Achievement of Key Performance Indicators
- Capital Programme Delivery

3.3 Key external inspections and reviews have identified the following additional areas of risk exposure:

- Equalities, Diversity and Inclusion

- Bristol Energy

Counter Fraud Arrangements

- 3.4 Bristol City Council takes a proactive and zero tolerance approach to fraud and has a strong fraud policy. A Counter Fraud and Investigations Team provide dedicated resource and expertise to support the fraud effort across the council. Team members have been actively involved in developing the “Fighting Fraud and Corruption Locally 2020’ (FFCL) local government counter fraud and corruption strategy with the LGA, CIPFA and other Local Authorities and organisations.
- 3.5 An assessment of control arrangements in the following areas has been completed:
- Fighting Fraud and Corruption Locally Strategy 2020 – Self Assessment. An assessment of arrangements against a revised checklist in strategy has been completed. The assessment has highlighted a few gaps in arrangements, specifically around improving publicity of individual fraud cases, improving fraud risk awareness, engaging Members and undertaking some regular reviews re compliance with standards of conduct and recruitment.
 - A review of the controls in place around the routes to obtain social housing was undertaken and ‘reasonable assurance’ was given that the process would identify and prevent fraud.
 - Forensic software was used to test for fraud in the Accounts payable system and identified no fraudulent payments. The risk in this area will likely have increased due to the Covid 19 pandemic and a further review is in progress currently.
 - A brief overview of arrangements determined that the risk of fraudulent claims for funded burials is low.
- 3.6 The number of corporate fraud referrals has increased slightly from 2018/19 from 35 to 38 and there has been a significant increase in tenancy fraud referrals from 277, in 2018/19, to 357 in 2019/20. Internal investigations have not uncovered any fraud, but tenancy fraud is an on-going issue for the authority with 41 properties regained or other positive outcome, relating to tenancy fraud or abuse.
- 3.7 An annual review of the Council’s whistleblowing arrangements concluded that the arrangements were reasonable. During the year, responsibility for whistleblowing arrangements transferred to Internal Audit to provide a more independent investigation response and enhance confidence in reporting. This became effective from 1st April 2020.
- 3.8 The adequacy of arrangements regarding fraud is monitored in the corporate risk register. In more recent times the level of risk has increased significantly due to the level of grants and support to businesses being distributed at pace as part of the government’s response to the covid 19 pandemic. The Council’s response to this risk has been to implement a programme of pre and post-payment checking. This work will be covered more fully in future reports. In 2020/21, the Council is also exploring the options of establishing a regional fraud hub that uses advanced analytics and more datasets to increase the detection and prevention of fraud.
- 3.9 Full details of the work of the Counter Fraud and Investigations team can be found in the Counter Fraud Annual Report 2019/20.

School Financial Governance and Management

- 3.10 In the first quarter of 2019/20 we finalised 17 schools audits that were carried forward from 2018/19 and the relevant outcomes were reported in May 2019. In addition, we finalised the 15 individual school reports which supported our survey of financial understanding and experience within all Council maintained schools. We rolled out the survey outcomes to all schools, so that each individual school could benchmark against other Council schools. We also rolled out the DFE's expanded Schools Financial Value Standard (SFVS) return to all Council schools; this included a benchmarking dashboard and collected a completed return from every school.

Follow Up of Agreed Management Actions

- 3.11 In concluding audit reviews, where gaps in the control framework are identified, management actions for improvement are agreed. It is the responsibility of management across the Council to ensure that those agreed management actions are implemented in line with the action plans and timeframes agreed when concluding each audit report.
- 3.12 In the first half of the year, Internal Audit undertook 16 follow up reviews (see Appendix A). Out of the 85 recommendations followed up, 49% had been implemented, 37% partially implemented and 14% not implemented. This was against a performance target of 75% implemented.
- 3.13 During quarter 3, Internal Audit worked with management to review all 2017/18 and 2018/19 outstanding management actions. A total of 185 recommendations were reviewed and at the end of the review period 76% were closed. This is significant progress and this performance is consistent with the target of 75% and reflects senior management effort in prioritising the implementation of outstanding actions.
- 3.14 During this exercise, it was noted that there was no mechanism for proactive monitoring and reporting of agreed actions at service level. In addition, the process for monitoring was driven by Internal Audit rather than management so the momentum of embedding monitoring of management actions as part of performance management should be maintained. The implementation of Internal Audit Management software in 2020/21 will automate the follow up process and this will eventually improve follow up, monitoring and reporting of agreed actions.

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 on a range of governance, risk and control matters making agreed management actions 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 Internal Audit also provides the Council's counter fraud response, covering not only the investigation of alleged fraud but also proactive fraud identification work, and fraud prevention work. Full details of the work and benefits delivered by the Counter Fraud team are provided in the Annual Counter Fraud Update 2019/20.
- 4.3 Significant benefits are generated for the Council from Counter Fraud work undertaken as detailed below:

- Recoverable over payments of £1.2m have been identified.
- Notional savings of £2.9m.
- 41 Council housing properties regained or other positive outcomes achieved.
- 329 Right to Buy applications checked.
- First Direct Payment Prosecution
- Several corporate investigations completed resulting recommendations for improvement.

Grant Certification:

- 4.4 Where a grant giving body requires an internal audit certificate before releasing payment, Internal Audit carry out work to verify and certify amounts that the Council can claim. Without this certification, grants may become repayable. 19 such grant claims were certified during 2019/20 with a value in excess of £29m. Details are provided in Appendix A.

Consultancy and Advice:

- 4.5 As well as completing planned audit reviews, Internal Audit 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.

Income Generation:

- 4.6 Whilst the Internal Audit service was not set an income target for 2019/20, it has achieved an income total of circa £41K. Income is generated by the sale of internal audit services and recharging directorates for grant certification work where this can be offset against the grant income.

Performance Against Targets:

4.7 Performance of the Internal Audit Team is measured and monitored throughout the year. Performance is summarised in Table 3 below:

Table 2

Performance Target:	2019/20 Target	2019/20 Actual	2018/19 Actual
% of planned work completed/in progress	90%	91.5%	96%
High/Medium agreed management actions Implemented	75%	76%	86%
No. of Properties (or other positive housing outcomes) recovered by tenancy fraud work.	40	41	32
% of QAQs with a score of 4 or more (Customer Satisfaction)	85%	83.1%	76%
Delivery of 2018/19 Audit Opinion to management and Audit Committee in time to inform the AGS	Yes	Yes	Yes
Annual Governance Statement delivered within statutory deadlines	Yes 2018/19	Yes 2018/19	Yes

% Planned Work Completed/In Progress:

4.8 By necessity, the Audit Plan must be flexible to ensure it remains relevant to risks facing the Council throughout the year. Consequently, the Audit Plan was reviewed during the year to take into account changes in the Council's environment and discussions with management. As a result a number of audits such as Business Continuity Planning, Procurement, Contract Management, Information Security Practice and Housing IT System were deferred. In addition, areas such as programme assurance and assurance mapping were deferred to allow the Internal Audit to receive the relevant technical training to improve audit proficiency in these areas. The historic resource pressures as a result of vacancies continued during the year but were mitigated by both temporary and permanent appointments. The additional resources have enabled the team to achieve 91.5% of the revised plan thereby providing sufficient coverage to support the opinion provided above.

High/Medium Agreed Management Actions Implemented: (Refer also to Paragraph 3.3 for fuller details.)

- 4.9 Follow up work is completed for all high and medium priority agreed management actions identified from audit work that concludes a red or amber level of risk. Implementation of agreed management actions is a key measure of the team's effectiveness in engaging with management to secure control framework improvements.
- 4.10 Whilst some follow up work was completed early in the year (appendix A refers), it was determined that a different approach was required during the second half of the year to work with management to address actions previously agreed that were not implemented. Paragraph 3.11 above refers. The performance reflected here is the result of that exercise.

Tenancy Recoveries:

- 4.11 The number of council property regains or other housing successes was 41 against a target of 40. Other successes include cancellation of potentially fraudulent housing applications or fraudulent Right to Buy applications. The Annual Counter Fraud Update 2019/20 provides further detail.

Customer Feedback Measure:

- 4.12 This PI results from satisfaction surveys which are completed at the end of each audit review. A revised approach to audit reviews was implemented and continues to embed. This provides for increased client engagement in the audit process and improvements to the report templates. Whilst performance on this indicator is slightly below target, the trend through 2019/20 demonstrates the new approach is having a positive impact on satisfaction with the audit process positioning the team well to perform to target going forward.
- 4.13 An annual survey of senior management and Members is generally completed at the end of the year to gain their perception on the quality of Internal Audit Services. This has not yet been completed for 2019/20 due to Covid 19 impacting at a time when the survey would normally have been undertaken. A decision was taken not to distract management from their priority of responding to Covid 19 with this survey. Instead, the survey will be undertaken in time for our half yearly report.

Quality Assurance and Improvement Programme:

- 4.14 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of internal audit activity which must include both internal and external assessments. The monitoring of performance against the QAIP must be assessed and reported to the Audit Committee on an annual basis. The QAIP which was considered and approved by the Audit Committee in November 2019 included the update on the implementation of recommendations arising from the Peer Review of the Internal Audit Service undertaken in February 2018 and further identified new improvement actions required to enhance the delivery of internal audit services in the Council.
- 4.15 A three year Internal Audit Strategy was approved by the Audit Committee in November 2019 which identified the following developments as key to improving compliance with PSAIS and overall delivery of the service's priorities:
- Introduction of an Automated Audit Management system will ensure adherence to procedures and practice. Authority has been obtained to procure such a system which is being implemented in Q1 of 2020/21.
 - Development of assurance mapping. Training has been undertaken by the whole team to assist with understanding of assurance mapping techniques. An approach to this is a priority development area for 2021/21.
 - Use of information, data and analytics to provide greater insight and assurance is an ongoing development across the team.

- Programme and project audit skills development was planned for the end of 2019/20 with core training arranged. However, the timing of the planned training was impacted by Covid 19 and this is now being arranged for September 2020.

4.16 Organisational independence

- The Chief Internal Auditor facilitates 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
- The Chief Internal Auditor is line managed by the Director of Finance; this arrangement could therefore create a conflict of interest; however the appointment of the Chief Internal Auditor is in conjunction with the Chair of the Audit Committee as would the dismissal should that need arise. The Chief Internal Auditor has unfettered access to the Chair and Vice Chair of the Audit Committee, should they identify the need. Nothing has occurred during the year that has impaired the Chief Internal Auditor's personal independence or objectivity.

5. Escalation Matters:

- 5.1 Consistent with the agreed exception reporting, summaries of audit work completed with limited assurance opinion have been provided to the Audit Committee throughout the year and have identified areas that have required escalation.
- 5.2 There are no matters to escalate other than those detailed within this report.

6. Resources:

- 6.1 As the Committee are aware, the Internal Audit service undertook a restructure in 2018/19, working towards a structure that was approved by the S151 Officer and the Cabinet Member for Finance, Governance and Risk. Recruitment to this structure has been unsuccessful and further vacancies have arisen during 2019/20. As in previous years the service has carried a significant number of vacancies through the year which has necessitated both the reprioritisation of the Audit plan and the engagement of external temporary resources.
- 6.2 Vacancies within the revised structure remain and the Service is working on addressing the current challenges through recruitment and appointment of a strategic partner where skills and capacity are required. Covid 19 has delayed recruitment to all vacancies although recent recruitment to fixed term contracts to the team has been successful. This provides an opportunity to review the capacity, skills and resource requirements post pandemic.

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.
- 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 to 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 2018 (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, Chief Executive, Senior Management Boards, which includes the s.151 Officer, and the Chair of the Audit Committee.