



# BRISTOL INTERNAL AUDIT

## INTERNAL AUDIT:

## Internal Audit Update Report:

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# 1. Introduction

- 1.1 The role of the Internal Audit function is to provide Members and Management with independent assurance that the control, risk and governance framework in place within the Council is effective and supports the Council in the achievement of its objectives. The work of the Internal Audit team should be targeted towards those areas within the Council that are most at risk of impacting on the Council's ability to achieve its objectives. In addition, the team provide a Counter Fraud Service to the Council to enhance arrangements for the prevention, detection and investigation of fraud.
- 1.2 Upon completion of an audit, an assurance opinion is given on the effectiveness of the controls in place. The results of the entire programme of work are then summarised in an opinion in the Annual Internal Audit Report on the effectiveness of the internal control, governance and risk management arrangements within the organisation.
- 1.3 The team's work programme has been significantly impacted by the coronavirus pandemic in terms of both focus of work and supporting the Council's emergency response. This update report provides the Audit Committee and Management with an update on the work completed by the Internal Audit and Counter Fraud teams since the last update to the Committee in November 2020.

## 2. Key Messages in this Report:

- 2.1 Work on completing the audit plan is progressing albeit slowly due to the impact of Covid19 on timely completion of audits and the challenge faced by operational managers to balance the need to effectively engage with internal audit and responding to the pandemic.
- 2.2 During the period under review, **limited assurance opinions** have been provided in three audits and the relevant summary of the reports are detailed in paragraph 6 and Appendix 3.
- 2.3 As previously reported, the Covid19 pandemic continues to put pressure on the delivery of the audit plan. Consequently the audit plan has now been reviewed with the Corporate Leadership Board. This is consistent with the rolling planning methodology and the need to align the plan to keys risks.
- 2.4 The pandemic has also significantly impacted on tenancy fraud work due to the legal, visiting restrictions and resource impacts.
- 2.5 The Counter Fraud and Investigations Team continue to support the distribution of government grants to businesses and individuals by undertaking pre-payment and post assurance checking.

- 2.6 Key improvements delivered during the period include the roll out of the agreed management action tracking system, the procurement of a strategic partner and completion of scheduled training by the team.
- 2.7 The Counter Fraud and Investigations Team won a national award (sector best practice) on work relating to tenancy fraud.

### 3. Audit Plan Delivery And Review

#### Delivery of plan

- 3.1 The delivery of the 2020/21 Audit Plan continues to be hampered by the organisational disruption, new emergency responsibilities and new working practices due to the Covid19 pandemic. Given the prevailing environment and the need for operational managers to respond to the pandemic as well as continuing business as usual, internal audit work is being completed at a slower pace than anticipated. As previously reported internal audit work was suspended in Quarter 1 and recommenced in July 2020. Between July and December, a lot of effort has been focused on completing key audit audits however the second and current lockdowns continue to put pressure on the delivery of the Audit Plan. In addition, during the period under review, one of the Group Auditors took early retirement and another Auditor has taken a new role in the Finance Service creating a resourcing pressure for the team. However, satisfactorily progress has been made in addressing the resourcing issue as the Group Auditor role has now been filled and interviews for the Auditor post have been scheduled. It is anticipated that the imminent appointment of a strategic partner will increase the capacity and capability to deliver the revised audit plan.
- 3.2 As at 31<sup>st</sup> December 2020, 42% of the audit plan has been completed with 22% being work in progress. This is against a planned target of around 67.5% at this stage in the year. Given the current position it is recognised that there is a risk that enough audit work may not have been completed by year end to inform a robust annual audit opinion. The following actions are being taken to mitigate against this risk:
- In consultation with the Corporate Leadership Board, the audit plan has been revised subject to the Audit Committee's approval in this meeting to ensure that Quarter 4 priorities focus on activities that contribute to the formation of the annual opinion.
  - In addition to the appointment of a Group Auditor on a fixed term contract, we are engaging agency staff in Quarter 4 to support the completion of the audit plan.
  - Maximising the use of other sources of assurance (*second and third lines of defence*), prioritising development of assurance maps and seeking additional and alternative assurances to inform the Annual Governance Statement.
  - Enhancing the use of agreed management action tracking processes to gauge improvement in areas previously identified as requiring improvement.

## Audit Plan Review:

- 3.3 Given the continued pressure on the delivering the audit plan referred to above, and the need in the current environment to ensure the plan reflects key risks faced by the Council, the audit plan has again been reviewed to set internal audit priorities for in Quarter 4. The key amendments to the plan are:
- All consultancy and advisory work which does not inform the annual audit opinion has been removed and will be considered for continued relevance in the planning process for 2021/22.
  - Assurance on the delivery of capital projects and other programmes will be drawn from the planned internal audit on the governance frameworks in these areas and assurance from other sources. Audit review of individual programmes and projects delivery will be a key focus for 2021/22.
  - Audit work in areas where policy or process continues to be affected by Covid19 has been removed.
  - Areas reassessed as lower risk have been substituted for emerging new risks.
- 3.4 Full details of amendments to the plan can be seen in Appendix 1.
- 3.5 Priority work planned for Quarter 4 is included at Appendix 2.
- 3.6 The Audit Committee is requested to approve the revised audit plan (Appendices 1 and 2) ensuring it meets their assurance needs.

## Management Action Tracking

- 3.7 In mid-December 2020, the management action tracking module of the new Internal Audit Software was implemented. This saw all agreed management actions from 2019/20 input to the system to enable real time update and monitoring of progress. In total, 280 actions were agreed by management in relation to audit work completed during 2019/20 as indicated in the table below. Officers responsible for implementing agreed actions have been asked to provide an update on progress by 31<sup>st</sup> January 2021.

	Total	Priority H	Priority M	Priority L
<b>Agreed Management Actions Recorded</b>	<b>280</b>	67	167	46

- 3.8 Responses received will be reviewed by Internal Audit for adequacy and audit work is scheduled to re-audit areas where a limited assurance opinion has been given. Sample checking in other areas will also take place to verify the position reported by management. This will include independently verifying that actions have been implemented as agreed. Progress in the implementation of the agreed management actions is being regularly monitored by senior management and a full report on the progress will be presented to the Audit Committee in March.

## 4. Recent Service Developments

- 4.1 The Committee will be aware that a Strategic Partner is being procured to bolster capacity and skills within the team. It is anticipated that the Strategic Partner will start work imminently to support in the team in Quarter 4 once the contractual arrangements are finalised.
- 4.2 In addition to individual training and development requirements, a whole team training programme has been developed consistent with the recommendation arising from the Internal Audit Peer Review. The progress on scheduled training in 2020/21 is reflected in the following table.

<b>Training</b>	<b>Status</b>
Auditing Projects and Programmes	Completed
Procurement Fraud Investigation	Completed
On-line Investigation	Completed
Information Security Management System Audit	In Progress
Auditing Automated System and Data Analytics in Auditing	Scheduled for March 2021
IT Audit for Audit Managers	Scheduled for March 2021

- 4.3 Where possible, training costs have been reduced by inviting regional audit team members to join the training delivered and service professional have also attended training session to improve their understanding of audit requirements whilst bringing a service perspective to auditors/investigators.
- 4.4 The Mandate for the establishment of a regional fraud hub has been approved. The fraud hub will maximise the use of advanced analytics and more datasets in the prevention and detection of fraud in a number of areas. Following demonstration from potential providers, an Outline Business Case is currently being developed.

## 5. Counter Fraud and Investigation Programme

### Whistleblowing

5.1 Managers have a responsibility to deal with issues of concern, malpractice raised by their employees and this is a normal employee / manager relationship. However in some instances, employees may feel unable to do this for various reasons:

- They fear possible reprisals
- The manager may be complicit in the activity that is causing concern
- Or they have reported to a Manager previously and nothing has been done

5.2 In these circumstances the Council's Whistleblowing process, managed by Internal Audit, is available to them. The number of Whistleblowing cases and current status are detailed below:

C/Fwd from 2019/20	Referrals 2020/21 to date	Closed	In progress
4	8	9	3

5.3 The International Fraud Awareness week was used to raise awareness of the Whistleblowing process and as part of this additional posters have been distributed to areas where access to the Council's intranet is limited.

5.4 Given that Internal Audit are now responsible for managing the Council's Whistleblowing arrangements and are no longer in a position to provide independent assurance on the adequacy and effectiveness of these arrangements, the procurement of an external and independent reviewer is currently underway. It is expected that an independent review will be completed in February/March 2021 and the outcomes will be reported to Audit Committee.

### Business Support Grants work

5.5 Since April, the team has been carrying out pre-payment and post payment fraud checks on various government support grants to businesses and individuals during the pandemic. The number of grants and the speed at which these need to be paid creates significant operational pressure on the team resulting in reprioritisation of counter fraud activities. This has covered the following schemes;

- Small and Retail Business grants
- Discretionary Grant scheme

- Additional Restrictions Grant
- Local Restrictions Grant
- Christmas support payment for 'Wet led pubs'

5.6 To date the Council has paid out over £100m across the various schemes and these checks continue with some schemes running concurrently.

### Tenancy Fraud

5.7 The team have continued to work on tenancy fraud throughout the various lockdowns, but inevitably work on tenancy fraud investigation and our ability to invoke recovery action has been impacted by the pandemic: The key issues are;

- The ability to visit properties and interview people has been restricted and a planned proactive visiting exercise is now postponed until 2021/22.
- Legislative changes have seen an increase to the notice period for legal notices of seeking possession from 28 days to 6 months and a requirement for courts to consider the impact of the pandemic on the tenant's circumstances.
- Additionally, a stay of all possession proceedings was issued in March and remained in force until the end of September.

5.8 Against a target of 30 positive housing outcomes, results this year to date compared to the previous year are detailed in the table below:

Tenancy Fraud Results	2020/21 to date	2019/20
Property Regains	10	32
Other Housing Positive Outcomes	2	9

5.9 In addition, 7 legal notices have been served during the year which will likely deliver results next year.

5.10 Both public and internal referrals to the team have significantly reduced when compared to previous years. Awareness training has now recommenced with housing staff to improve this position and the teams are exploring how they can collaborate more effectively going forward.

5.11 The Council is participating in the 2021 National Fraud Initiative and will likely receive outputs later this month. This and other internal data matching exercises may identify further cases for investigation.

## **Fighting Fraud and Corruption Locally – Local Government Fighting Fraud Award 2020**

- 5.12 In January 2020 the team entered two submissions for the Fighting Fraud and Corruption Locally – Local Government Fighting Fraud Awards 2020. The submissions related to:
- Joint work of the team with Local Taxation on National Non-Domestic Rates, Small Business Rate Relief
  - The teams work over the years in tackling tenancy fraud
- 5.13 The team were shortlisted for both submissions but eventually won the sector award for the work we do in tackling tenancy fraud. The judges were impressed by the holistic approach taken by the team in tackling Tenancy Fraud, the proactive approach to detecting fraudulent activity, the professional approach to evidence gathering, the recognition of the expertise needed for prosecutions and also, critically, the recognition of the importance of including housing practitioners in the team and the valuable knowledge and expertise that they bring.

### **Fraud awareness**

- 5.14 International Fraud awareness week in November provided an opportunity for the team to promote fraud awareness and how to report fraud. Colleagues in the Trading Standards Team also used the opportunity to raise public awareness of fraud scams which have increased during the pandemic. The series of activities during the week included:
- Chief Internal Auditor's blog of fraud
  - Social media posts promoting fraud hot line and scams
  - Fraud presentation to the Council's Leadership Forum
  - Sign on screen notices raising awareness
- 5.15 Fraud awareness training sessions have also been provided to the Admins and Business Services Leadership team, Right to Buy team and also new team members of the Benefits administration service.



## 6. Summaries of Audit Reports:

6.1 Three audit reviews completed since the last update have concluded limited assurance opinions. Summaries for these reports are provided in Appendix 3. Management will be invited to Audit Committee to update the committee on what actions are being taken to remedy the control arrangements in these areas:

- Harbour Office Income
- Ombudsman Responses
- Telecoms Contract

## 7. Appendices:

Appendix 1	Amendments to the plan
Appendix 2	Quarter 4 Plan Priorities
Appendix 3	Limited Assurance Report Summaries

## Internal Audit Plan Amendments

Plan Amendment	Reason for Amendment
<b>Plan Additions:</b>	
Brexit Impact	A high level review of approaches being taken towards challenges brought by Brexit (procurement, employment)
<b>Plan Removals</b>	
Climate Emergency – Zero Carbon Strategy	Consultancy
Bristol Register Office	Consultancy
Records of Data Processing Activity – Follow Up	GDPR Project being mandated which will address concerns.
Adult Social Care Debt Follow Up	Debt collection processes impacted by Covid
Capital Projects Assurance	Carried forward to Q1 in 2021/22
DBS Checking	Dependent on new system implementation
Data Quality	Carried forward to 2021/22
Risk Review - Serious Youth Violence and Contextual Safeguarding	Carried forward to 2021/22
Group of Companies Governance	Carried forward to 2021/22
Partnership Working – Tracking of Outcomes	To be considered for 2021/22 Audit Plan
Making Tax Digital	Management assurance to suffice
Grant Funding Exit Strategies	Not essential to annual opinion
Trading with Schools Commercialisation Follow up	Carried forward to 2021/22
Housing IT System Upgrade	Key controls to be covered during repairs and rent collection reviews.
Commissioning	Carried forward to 2020/21

## INTERNAL AUDIT PLAN 2021 Priorities Q4

Appendix 2

Name of Review
<b>A. Audit and Assurance Plan Priorities Quarter 4</b>
<b>Governance</b>
Annual Governance Statement
Equalities and Inclusion
Health & Safety
Performance Management - Key Performance Indicators Delivery
<b>Risk Management</b>
Risk Management Annual Review
Brexit
Homelessness follow up
<b>Financial Control</b>
Grant Certifications
Financial Stability
Financial Systems Interfaces Follow Up
Accounts payable
iTrent - Payroll Controls
Capital Programme Governance - Growth & Regeneration
Direct Payments Follow Up
Housing Rents collection
Schools Programme
Commercialisation
<b>HR and Assets</b>
Interims and consultants
Response Repairs
Organisation Improvement Plan
<b>IT and Information Governance</b>
Information Security Management including Cyber security.
ITTP
IT Resilience
Information Governance Board Assurance Support
<b>Commissioning and Procurement</b>
Contract Management
<b>Covid Response</b>
Continued Support to Covid Response
<b>Other</b>
Management Action Tracking
Assurance Mapping
<b>B. Counter Fraud Plan and Priorities Quarter 4</b>
<b>Fraud Detection</b>
Tenancy Fraud Casework
National Fraud Initiative
Emergency Response - Business Support pre-payment checking
Accounts Payable - Fraud checks
Procurement card - sample checks
Social Care Data matching
Guardianship Payments Testing
Tenancy fraud data match
Tenancy Fraud Investigations (83 cases)
Other fraud investigations (12 cases)
Whistleblowing allegations (3 cases)
<b>Fraud Prevention</b>
Right to Buy Application checks
Fraud Hub project progression
Criminal Finance Act

## 3.1 Response to Ombudsman Reports

### *Introduction*

Council service users and customers can complain to the Local Government Ombudsman (LGO). The Customer Relations Team (CRT) is the main point of contact for the LGO and all LGO communications are sent initially to the CRT. The CRT establishes the nature of the required response and which service needs to reply and then forwards it on with a request for action, where necessary.

The objective of this assignment was to review and assess how effectively the risks associated with LGO complaints are managed. Internal Audit selected a sample of 10 cases from the LGO's report for 2019/20 and reviewed whether there was evidence of satisfactory resolution of complaints.

### *Assurance Opinion and Key Findings*

Based on the completion of the fieldwork, a **Limited Assurance** audit opinion was assigned. On a positive note:

- The Council's Complaints, Comments and Compliments Policy and Procedures document contains processes for communications with the LGO
- The Customer Relations Team (CRT) comprises three Senior Complaints Officers, each with specialist backgrounds to cover across all Council services.

However, the following areas of weaknesses were identified:

- There was no evidence to confirm that complaints were considered on a timely basis and the LGO has indicated that complaints were not considered promptly by the Council in 2019/20
- Information relating to pre-September 2019 complaints cannot be accessed due to computer systems failure
- The CRT were unable to provide evidence of satisfactory resolution of complaints from responsible service managers
- Evidence of satisfactory resolution was not provided for 3 out of 10 post September 2019 complaints sampled by Internal Audit
- Learning points from complaints which are not upheld are not identified to continuously improve Council services.

Internal Audit acknowledges that the CRT is an enabling function and that primary responsibility for satisfactory resolution lies with service managers.

The audit findings and management actions were agreed with CRT management.

## 3.2 Harbour Review

### *Introduction*

The objective of this assignment was to undertake a review of progress in improving the administration in the Harbour Office. The start of the audit was delayed due to Covid19. During the audit, the responsibility for the Harbour moved from the Resources Directorate to the Growth & Regeneration Directorate. The audit focussed on three areas:

- Review of completeness of income generating processes
- Consideration of the application and appropriateness of the current “by-laws”
- Review of maintenance processes.

The review did not include assessing in detail the compliance with statutory regulations.

### *Assurance Opinion and Key Findings*

Internal Audit has provided a ‘limited’ assurance opinion on the completeness of income generation, appropriateness of by-laws and effectiveness of the maintenance and refurbishment processes. This adverse opinion reflects the lasting impact of closed practices and poor management arrangements that were in place in 2019/20 and previous years and greater reliance on paper records than elsewhere in the Council.

There was an extended period from September 2019 to April 2020 when the harbour administrative office was manned by temporary staff only. In April 2020, a new harbour administrative team led by the Harbour Master was put in place and this new team fully recognise that harbour records are incomplete. In 2020/21 the new team has prioritised income generation and this financial year gives the team time to design and implement new processes ready for 2021/22.

Whilst it is encouraging that the new team is receptive to change and responded positively to feedback during the audit, there is significant work that needs to be undertaken to enhance the internal control and risk management arrangements currently in place. The key findings that have been agreed and welcomed by management are as follows:

- The current harbour computer system is not being used to its full extent; it is an older version of “Havenstar” with limited functionality and ongoing access problems. As a consequence there is a mismatch in records raising uncertainty whether all fee income is being received. It is our opinion that the current “Havenstar” system is “not fit for purpose” and should be replaced with an appropriate system that has data analytics and compliance capabilities that enable effective management assurance arrangements
- Based on our testing and in the context of poor recording, we have estimated that fees were not charged by £100k in 2019/20
- In the year to March 2020 the harbour estate made a loss of £43k against the annual budgeted loss of £285k. The difference reflects lower staff costs due to loss of staff in the year. It is our opinion that the financial position would have been better if all the fees were charged and collected given the level of undercharging identified by the audit

- A comparison of average berth fees for Bristol with other harbours in the South and South-West showed Bristol was significantly charging less for leisure berths by a median of 75%. In value terms, if the Bristol fees were in line with the neighbouring harbours or slightly lower, it is our opinion that the annual budgeted deficit of £285k in 2019/20 would have been significantly lower. The upward review of fees and improvement in the charging and collection of fees would in our view put the harbour estate in a break even or better financial position
- The harbour by-laws were last reviewed in 1998. We concur with management that in some places they contain ambiguities and are difficult to enforce
- Surveys and investigations into condition of elements of the harbour estate have been carried out over the past year. As yet, there is no co-ordinated and costed maintenance and refurbishment strategy. Internal audit has concern over the capacity of the current maintenance function to deliver the required strategy.

The audit findings and management actions were agreed with the relevant senior managers.

### 3.3 Telecoms Contracts

#### *Introduction*

Internal Audit was requested by the Council's Section 151 Officer to undertake an assessment of the financial discrepancies, weaknesses in the systems and processes that may have led to the overpayments to Virgin Media Business (VMB) and determine the adequacy of changes implemented to prevent a reoccurrence. This followed an in-depth review by the ABW team of invoicing by VMB which covered all invoices in excess of £10k for the period September 2014 to October 2018 which identified duplicate payments of £727,334. This sum was agreed and credited by VMB. Further work by the ABW team on post October 2018 invoices identified a possible further overpayment of £100k.

#### *Assurance Opinion and Key Findings*

Internal Audit obtained **limited assurance** that the management of the three Telephony contracts with VMB had been effective. This conclusion reflects the overpayments already made, the risk of further overpayment and the risk of budget overspend. The key findings from the audit are summarised below; these need to be taken as lessons learned when a new contract is put in place for September 2020:

- Internal Audit have estimated that there is potential overspend of £3.3m against the original contracted value of the three contracts with VMB of £11.47m. If the projected overspend is realised at the end of the contract period these VMB contracts would end up being overspend by almost 25%. Whilst price fluctuations are inevitable during the life of the contract the projected overspend is concerning and is a reflection of poor contract management with significant value for money implications.
- The duplicate invoices that resulted in overpayments of £727,334 which have since been repaid could have been identified and not paid by the Council in the first instance, if there were adequate and effective processes for scrutinising invoices before they are authorised for payment.
- The ABW Team has reviewed payments made post October 2018 and have identified a further potential overcharge of circa £100k. There is a concern that at the time of reporting no action has yet been taken which could result in this amount not being recovered.
- There is no formally designated contract manager to own responsibility for the three VMB contracts and associated budget. Whilst the oversight provided by senior management is a welcome improvement, dedicated contract management resource will provide effective scrutiny on invoices and enhances the opportunity to identify incorrect invoices before they are paid.
- Financial information by contract is not being captured to enable sound financial control of the contract.
- Internal Audit acknowledge that identifying incorrect charging is not a simple matter of comparing invoice values and involves breaking down and analysing very complex invoices; there is a need to evaluate if further work on lower value invoices would be cost effective.

**Director: Digital Transformation Overall Comments**

It should be noted that this Internal Audit was undertaken without the knowledge of the Director, Digital Transformation and the initial reports were drafted without discussion in regards to scope or response with the IT Service Director or IT Budget Holder.

IT Services recognise and accept the legacy failings with Contract Management and certain aspects of Finance Management.

IT Services did review and acknowledge the situation back in early 2019, and have undertaken positive steps to address. These steps included the transfer of our Procurement and Contract Management Team into Central Procurement in September 2019 to assist in ensuring a compliant approach and enabling the building of a Centre of Excellence for this function. Action also included the promotion of an Internal Resource to manage all aspects of Finance. In addition, we have amended our procedures and management of budgets with the IT Service.

We accept that there is more to do.

We have raised continued concerns that, following the staff transfer to Central Procurement, we have had a detriment to the Contract Management and Procurement service supplied to IT Services. The two teams are in regular contact and we are working to find a resolution to this. However, as this is a service for which IT Services are a customer, we are unable to advise Internal Audit on why issues remain or the way forward.

In regards to the specific situation with VMB, it should be noted that the changes IT Services instigated were the primary reason for the duplicate invoicing issue being discovered. As a result of this, we secured a credit note for c£0.75m. We believe that this should be recognised as a success in that our new approach identified and recovered this spend, rather than reflect on the previous poor management which is no longer in place.

We did ascertain that further monies c£100k could be recovered, but the resource availability and costs to undertake the analysis, probably outweighed the money we could successfully recover. It had taken around a year of continued effort to successfully recover the monies agreed between parties and I made a decision, as the Contract owner, to not pursue this further.

My team recognises the poor performance of the VMB Contract. It failed to anticipate future demand and we placed too much emphasis on the supplier undertaking audit actions and being proactive on our behalf. We will be letting a new contract during 2021/22 and this will be much more cost effective, appropriately scoped with the necessary flexibility and contract reviews.

Overall, I believe the issues to be legacy and that future contracts will be better procured and managed, although some remain in regards to IT Governance and Assurance prior to contracting decisions being made.

The Council has many IT Contracts that need to be reviewed and corrective action undertaken whether that be cessation, re-procurement or simply be better contract managed. IT Services are currently working with a third party to review the scale of opportunity in regards to IT Contracts across the Council, and to determine the best approach to maximise early returns/improvements.