



BRISTOL INTERNAL AUDIT

Information Classification: Level 1 Due care

INTERNAL AUDIT: ANNUAL REPORT 2015/16

Date: June 2016

Melanie Henchy-McCarthy

Chief Internal Auditor

0117 92 22063

melanie.henchy-mccarthy@bristol.gov.uk

Alison Mullis

Chief Internal Auditor

0117 92 22448

Alison.mullis@bristol.gov.uk



Contents:

| | Page |
|--|---|
| 1 Purpose of Annual Report | 2 |
| 2 Chief Internal Auditors Opinion | 3 |
| 3 Areas of Risk Exposure | 6 |
| 4 Other Internal Audit Activity | 8 |
| 5 Internal Audit Performance and Effectiveness | 12 |
| 6 Escalation Matters | 14 |
| 7 Resources | 14 |
| 8 Looking Forward | 15 |
| 9 Context and Compliance | 16 |
| Appendix A | Summary of Internal Audit work completed or in progress during the period |
| Appendix B | External Fraud Benchmarking |
| Appendix C | Public Sector Internal Audit Standards Compliance |

1. Purpose of this Annual Report

1.1 This Annual Report provides a summary of the work completed by Internal Audit (IA) during 2015/16. Its purpose is to:

- ❖ Provide the Chief Internal Auditors' (CIA) annual opinion on the overall adequacy and effectiveness of the Council's governance, risk management and control framework during 2015/16 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 activity, performance and effectiveness of the Internal Audit service

2. Chief Internal Auditor's Opinion:

- 2.1 Based upon the work completed by the Internal Audit Team during 2015/16, we can provide reasonable assurance that the overall adequacy and effectiveness of internal control, risk and governance framework during the period 1st April 2015 to 31st March 2016 was acceptable with an overall amber level of risk to the Council on the corporate risk matrix:

| | | | | | | |
|------------|---|-------------------|---------------|------------------|---------------|-------------------|
| Likelihood | 6 | Almost Certain | 6 | 12 | 18 | 24 |
| | 5 | Likely | 5 | 10 | 15 | 20 |
| | 4 | Probable | 4 | 8 | 12 | 16 |
| | 3 | Possible | 3 | 6 | 9 | 12 |
| | 2 | Unlikely | 2 | 4 | 6 | 8 |
| | 1 | Almost Impossible | 1 | 2 | 3 | 4 |
| | | | Marginal 1 | Significant 2 | Critical 3 | Catastrophic 4 |
| | | | Impact | | | |

- 2.2 Our opinion is based on evidenced assessment of the control framework in a number of areas in accordance with our annual plan as follows:

a) **Planned Assurance Work:** Appendix A to this report provides details of all the work completed by the team during 2015/16. From this, it can be seen that for 82% of the planned assurance reviews we completed, acceptable or better internal control was demonstrated at the conclusion of our review. 78% of non-school work examined demonstrated acceptable or better internal control arrangements, with 88% of schools examined demonstrating the same. Reviewing this figure for previous years, as detailed below, it can be seen that previous good progress has been maintained during the year. There is a slight decline in the number of reviews concluding acceptable or better controls. The graphs below demonstrate year on year results of the % of planned assurance reviews completed and the conclusions in respect of the control framework (Figure 1) and the % of high, medium and low residual risk. (Figure 2):

Figure 1

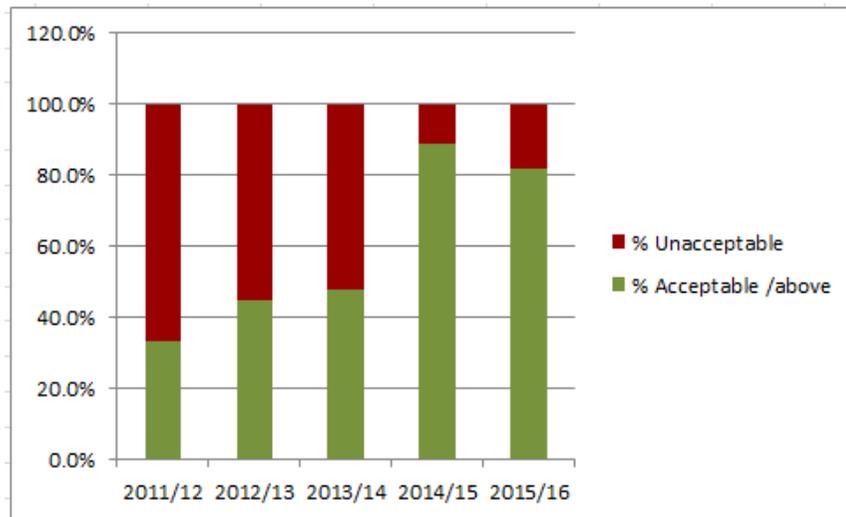
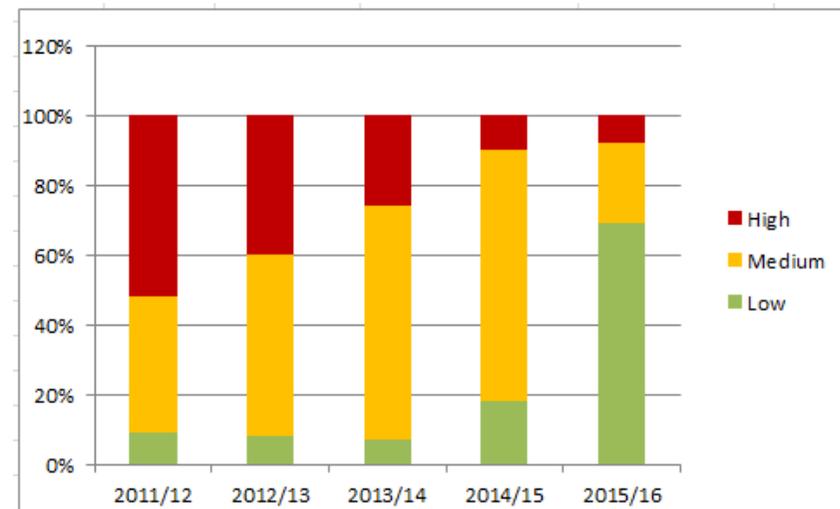


Figure 2



b) **Risk Management Arrangements:** Our role as facilitator of corporate risk arrangements leaves us well placed to comment on the overall risk management arrangements. At strategic level, the Council's policy on risk management has been in place throughout the year and the Strategic risk registers have been maintained and reviewed in line with the requirements of the policy. There is work to do to further embed and align risk management processes with corporate priorities, planning, budgeting and performance management but overall the risk management arrangements are felt to have been acceptable during this year.

c) **Governance Arrangements:** Of the fourteen items brought forward into the AGS action plan for 2015/16, nine of the matters arising have improved sufficiently for them to no longer be considered significant and as such have been removed from the Statement in relation to 2015/16. These are:

- Capital Projects
- Use of Consultants/Interims
- Council Policies & Procedures

- Performance Monitoring/Reporting
- Change Programme Governance
- Scrutiny Function
- Quality of Service/Complaints
- Schools Corporate Governance.

Of the residual items, four have shown positive improvement over the year, but still require further action and one has increased in risk as key actions remain outstanding. Additionally, two further significant matters arising have been identified for inclusion in the action plan. They are:

- Delivering Democracy
- Impact of Devolution on the Governance Framework

Based on the matters arising and the actions currently outstanding the overall level of risk for the governance framework within Bristol City Council is 'Amber'.

d) **Counter Fraud Arrangements:** The Council has good counter fraud arrangements in place with a proactive and robust approach in respect of its key fraud risks. External benchmarking demonstrates that the Council is highly proactive in seeking out and stopping fraud and some reviews of controls in place to prevent fraud have demonstrated that generally controls are implemented or being implemented to prevent fraud entering our systems where practical. Whistleblowing procedures are currently not fully robust but this area is being reviewed.

2.3 We have seen an improvement in control and governance at the school establishments we have visited compared to previous years. During 2015/16 twenty schools and Nurseries/Children Centres were reviewed, two receive ratings of "Partial Control" due to issues around the control of debtors and budget management. However it is pleasing to report that for the two schools which received unacceptable audit opinions last year, revisits this year identified significant improvements in their control environments. The SFVS assessment is a self-assessment by schools of their financial arrangements that is approved by Governors. The majority of schools met this requirement with only one of the Council's school's failing to meet the requirement of submitting a signed SFVS assessment by the 31st May 2016.

2.4 Finally, as a cautionary note going forward into 2016/17, the need to identify further savings to balance the 2016/17 budget could result in an increased level of risk to the Council in terms of control, risk and governance issues. Additionally, the improvement in the control framework in recent years detailed in the graphs above is reflective of the strong and consistent leadership shown in this respect from the Strategic Leadership Team. Going into 2016/17 there are a number of significant organisational changes that will enhance the need for Internal Audit to work with management to ensure the profile of/attention to risk, control and governance matters continues; notably a change in Mayoral leadership, the departure of the City Director/Strategic Director Business Change as well as a number of interim management appointments that are in place. Interim appointments include the s151 Officer, the permanent staff member having left the Council midway through 2015/16.

3. Areas of Risk Exposure:

3.1 Whilst our overall opinion is 'acceptable', there were several areas identified, as detailed below, where this is not the case. These have been considered when compiling the Annual Governance Statement.

Financial Governance:

3.1.1 Many of the issues around the controls within the ABW finance system have been addressed. However we still feel that the system could be improved to increase its effectiveness and the efficiency of Council financial operations going forward. There should be a focus on making the best use of the automation tools available within the system and not all modules of the system are yet in place. The implementation of the HR/Payroll module is complex and the timetable for this is slipping, however we commend officers for taking the decision to slip this implementation rather than hurry through implementation of a system that is not yet fit for purpose.

3.1.2 Internal Audit work during 2015/16 on the following financial systems found controls to be acceptable.

- Agresso Business World - Budgetary Control
- Agresso Business World - Ordering & Payments
- Agresso Business World – Debtors (*due to positive direction of travel in improvements*)
- BACs System
- Duplicate Payments – Prevention & Identification
- VAT
- Treasury Management

3.1.3 There are however some areas of financial control for which audit work concluded controls were not acceptable:

- Bank Reconciliation - our work has indicated that the process is still not robust and is not sufficient to prevent or identify irregularities.
- Managerial Budgetary Control – Whilst the central systems and process for ensuring budgets are correct in the financial system were found to be sound, there were weaknesses identified in ensuring that budget managers were effectively using systems to ensure accurate forecasting and identifying of budgetary pressures.

3.1.4 Additionally, areas of financial governance which are worthy of a mention include:

- Financial Regulations – these remain out of date and have yet to be updated to reflect changing practices at the Council and rolled out. It is understood however that their review is now actively in progress and we understand the Committee will receive an update on this at its July meeting.

- The Council has again seen the departure of its Section 151 Officer during the year. (The Section 151 Officer is the officer responsible for the proper financial administration of the Council including ensuring there is a sound financial control and governance framework in place). Interim arrangements were in place to cover the role for the remainder of the year.
- The Finance Service Improvement Plan developed by the former s151 Officer has been incorporated into a wider Finance Service Improvement and Project Plan by the current s151 Officer. Again, we understand the Committee will receive an update on this at its July meeting.

3.2 Procurement Issues

3.2.1 Generally, the larger contracts we reviewed are in compliance with procurement regulations and are delivering to specification. However, we remain concerned that the system for allowing waivers to the Council's procurement regulations does not provide the robust challenge required, and that waivers are granted when the procurement should have gone to the open market. We identified the need for improvements in the evaluation process for tenders which are now being addressed and we also saw evidence of poor monitoring of contracts. Control and governance issues were identified where a contractor went into liquidation and significant delays caused to the project. Control issues identified were:

- Awarding the contract to a bidder which had been assessed as having a high risk of financial failure.
- The terms agreed by the Authority failed to protect the interests of the public leaving their deposits unsecured.
- The Council was late to take action to address regular breaches to performance of the contract.

3.3 Partnership Working - Governance

3.3.1 This area has been previously identified for improvement in the Annual Governance Statement. Whilst the governance around strategic partnerships is felt to be good, there was a concern that governance in the smaller partnership arrangements was not robust. Whilst some work has been done corporately in this area, Internal Audit work has identified examples which demonstrate more work is required

3.3.2 Bristol is Open: a joint project with Bristol University. It aims to build a research network integrating optical, wireless, IoT and computing to provide a unique open and programmable experimental platform in the centre of Bristol. Our review of the governance around the project found that there was a lack of clear governance arrangements in place, which led to significant overspends due to:

- Budgets not being defined
- Poor collaboration with internal & external partners
- Failure to monitor legal framework contract

3.3.3 Bristol 2015: At the request of the Council we undertook three audits of Bristol 2015 through the year. Our work covered the period March 2015 to March 2016. In this period we found that there were good financial controls in place within the Company.

3.4 Business Continuity Planning (BCP)

- 3.4.1 We could only give limited assurance on the effectiveness of the Council's BCP arrangements and concluded that the management of BCP risk was not robust. The reasons that controls around this area have weakened is the impact of the recent restructure and the realignment of responsibilities, which the Council is currently addressing. We will revisit this area in September 2016 to assess the implementation of the report's recommendations.

4. Other Activity:

Grant Certification

- 4.1 During 2015/16 we were required to review a number of grants across the Council, where the grant giving body required an internal audit certificate before releasing payment. Full details of all the grant claims we have certified are included in Appendix A. Whilst we have been able to certify the grant claims, we are concerned to see the boundaries of some grant conditions being pushed and on a number of occasions we have felt the need to qualify our certification of the grant. To our knowledge, this has not resulted in any of the grant funding being withheld but has highlighted the need for us to be involved at the stage the grant is awarded to ensure the recipient of the grant fully understands the grant conditions and the audit sign off requirements.

Risk Management and Annual Governance Review/Statement:

- 4.2 Internal Audit has lead the co-ordination and review of the Corporate Risk Register and worked with Directorates to help them develop their Directorate Risk Registers. The Committee received the Corporate Risk Register in September 2015 and January 2016 and a risk management Annual report at its meeting in April 2016. The Audit Committee also received each Directorate Risk Register for information (they are scrutinised by the relevant Directorate Scrutiny Commission) to enable them to monitor that registers are being maintained.
- 4.3 Additionally, Internal audit has lead the Annual Governance Statement review process on behalf of the Council. The Audit Committee is receiving a separate report regarding the findings of this review and issues of concern it identified, at this meeting.

Fraud and Irregularity:

4.4 The Council acknowledges the fraud risks it faces and actively continues to seek out and investigate fraud in accordance with its Anti-fraud and Corruption Strategy and Policy and its legal duty to protect public funds. All aspects of tackling fraud have been considered during 2015/16 including:

- Responsive fraud work - dealing with allegations of fraud/whistleblowing
- Proactive fraud work, whereby we are actively searching for fraud by using analysis and data matching techniques
- Preventative work, where we are reviewing the fraud risks and how effectively they are managed
- Value for money work – where a potential opportunity for saving money is identified

Benchmarking and Performance

4.5 We routinely evaluate the Council's counter fraud arrangements by completing annual bench-marking surveys and the European Institute for Combatting Corruption and Fraud have recently provided a briefing report, based on our survey submission showing how we compare with others in our region. The report (see Appendix B) shows us as top in our region for detecting most types of fraud. Although, due to our size, higher levels of fraud within Bristol might be expected than other authorities in the South West region, it does still demonstrate the Council and team's effectiveness in pursuing fraud against the it. **Tables 1 & 2** show a summary of the responsive fraud work received or concluded over 2015/16 analysed by type and source. **Table 3** provides an analysis of referrals in terms of case type and referral source:

| <u>Table 1: Type of Financial Saving</u> | HB/CTR | Ltax exemption | Direct Payment | Duplicate Payments | Other | Total |
|---|-------------------|-----------------|-----------------|--------------------|-------------------|---------------------|
| Overpayment | 877,796.45 | | 4,253.13 | | 6598.15 | 888,647.73 |
| Prosecution Costs | 74,407.02 | | | | 2679.80 | 77,086.82 |
| Confiscation Orders | 11,933.33 | | | | | 11,933.33 |
| Admin Penalties | 7,732.27 | | | | | 7,732.27 |
| Cancellation of annual exemption | | 7,468.09 | | | | 7,468.09 |
| Recoverable payment | | | | 19,092.00 | | 19,092.00 |
| Right to Buy discounts stopped | | | | | 383,270.00 | 383,270.00 |
| Total Payments recovered or recoverable | 971,869.07 | 7,468.09 | 4,253.13 | 19,092.00 | 392,547.95 | 1,395,230.24 |
| Weekly incorrect benefit (WIB) (benefit stopped) | 3,174.50 | | | | | 3,174.50 |
| | | | | | | |

Table 2: Source of Financial Saving

| | HB/CTR | Ltax exemption | Direct Payment | Duplicate Payments | Other | Total |
|----------------------------|------------|----------------|----------------|--------------------|------------|--------------|
| Benefits Case work | 821,708.83 | | | | | 821,708.83 |
| NFI | 150,160.24 | | | 19,092.00 | 6,598.15 | 175,850.39 |
| Tenancy Fraud Work | | | | | 385,949.80 | 385,949.80 |
| Other Proactive Fraud Work | | | | | | 0.00 |
| Responsive work | | 7,468.09 | 4,253.13 | | | 11,721.22 |
| | 971,869.07 | 7,468.09 | 4,253.13 | 19,092.00 | 392,547.95 | 1,395,230.24 |

Note: Although Benefit fraud is now investigated by the DWP, the council, in agreement with them, have brought to a conclusion several prosecution cases that were already underway before 1st April 15. In addition the team provide a point of contact for the DWP to obtain information on cases they are investigating and have dealt with 360 enquiries from the DWP. For this reason we have recorded the outcome of for benefit cases in which we have had involvement in the figures above. The extent of our involvement will however vary from case to case.

Table 3: Analysis Referrals

| Fraud Type | No of Cases |
|------------------------|-------------|
| Tenancy Fraud | 216 |
| Procurement | 3 |
| Cash | 1 |
| Cheque/Credit Card | 3 |
| Insurance | 1 |
| Local Taxation | 3 |
| Assets | 4 |
| Benefits (non-housing) | 13 |
| Irregularity | 5 |
| TOTAL | 249 |

| Referral Source | No of Cases |
|--------------------------------------|-------------|
| Internal Whistle-blower | 2 |
| External Referral | 108 |
| Employee, Manager or control process | 121 |
| Police | 1 |
| Other (eg NFI, Other LA's etc.) | 17 |
| TOTAL | 249 |
| Investigation Status | No of Cases |
| Live cases* | 193 |
| Closed – property regain | 47 |
| Closed – application cancelled | 13 |
| Closed – prosecution | 1 |
| Closed – proven | 2 |
| Closed – referred on | 20 |
| Closed – No investigation | 10 |

| | |
|------------------------------|---------------|
| Closed – Report/Advice given | 7 |
| Closed – No action** | 178 |
| TOTAL | 471*** |

NB: 1) **The live cases are as at May 2016*

2) *** A more detailed breakdown of this figure will be available for 2016/17*

3) ****The number of cases differs to the total number of referrals as some cases have been carried over from earlier years.*

4.6 In addition to the 249 referrals above, we received 13,091 matches from the National Fraud Initiative (a mandatory exercise which matches our data against other Local Authorities data and other data sets such as death and immigration records) and have taken a targeted and risk based approach to the investigation of these matches. The results from this work are included in the financial savings tables 1 & 2.

Responding to Key Fraud Risks:

4.7 Direct Payments/Personal Budgets - We are working closely with Social Care to develop an approach to investigation of finance and care assessments as issues and irregularities in this area have been referred to Internal Audit in a number of cases.

4.8 Local Tax Single Persons Discount (SPD) review – Local Taxation Team have undertaken another successful review to identify persons wrongly receiving SPD. A total of 354 cases are also in receipt of Council Tax Reduction and their entitlement to this would also be affected by an additional adult living at the address. These cases are being investigated by the Audit Investigations team.

4.9 Tenancy Fraud - The focus remains on assisting in the recovery of properties with 47 being recovered in the period. In addition, criminal proceedings are considered for the most serious cases and this resulted in one case going to trial this year with the defendant pleading guilty. It is hoped that publicity around such prosecutions helps to reduce tenancy fraud by sending out a strong deterrent message to others. Proactive work to prevent fraudulent right-to-buy applications continues. 7 right-to-buy applications were either cancelled or withdrawn in the period, saving the Council a considerable sum in falsely claimed discounts. In most of these cases the tenancy was also recovered.

Working with other Enforcement Agencies:

4.10 We continue to receive a high volume (438 requests) of requests for information from the police and other enforcement bodies and the introduction of an Intelligence Officer in July 2015, to deal with all requests for information has proved to be successful.

5. Internal Audit Service Performance and Effectiveness:

- 5.1 Overall, it has been a relatively settled year for the Internal Audit Service as our own staffing situation has settled down after restructure. We have been able to deliver more assurance work than in previous years and have worked continually with management to raise the profile of internal control, risk and governance matters. The service has been involved in advising on control and risk issues for many aspects of the Councils change programme hence responding to key changes across the Council. Additionally, our proactive work has again demonstrated the value that the service has provided over the last year.
- 5.2 The Team has completed a self-assessment of its compliance with the requirements of the Public Sector Internal Audit Standards (PSIASs) 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 the Internal Audit Service is compliant with the PSIAS and that consequently they can rely on the work of the Internal Audit Service, and secondly, to further enhance delivery of the internal audit function through the identification of opportunities for development. Overall, the self-assessment has concluded that the Internal Audit Service is compliant with the PSIAS requirements. Some exceptions to full compliance are detailed in the Appendix C together with how they will be addressed. An external assessment by Liverpool City Council during 2016/17 in line with the requirements to have an independent review of compliance with the standards every five years will validate this self-assessment.

Performance Against Targets

- 5.3 Performance targets have been identified and progress against these is continually monitored throughout the year to ensure good value for money is provided by the Audit Service. In a move to monitor output/outcome rather than input/process measurement, we have reduced our reportable performance targets to the following: For 2015/16 our year end performance was as follows:

| Value for Money Indicators | 2015/16 Actual | 2015/16 Target | 2014/15 Actual |
|---|-----------------------|-----------------------|-----------------------|
| <i>High/Medium recommendations Implemented or Escalated</i> | 82% | 90% | 71% |
| <i>No. of Properties recovered by tenancy fraud work.</i> | 47 | 45 | 40 |
| <i>% of planned Statutory Assurance work completed/in progress/not required by auditee against plan</i> | 90% | 90% | 88% |
| <i>% of QAQs with a score of 4 or more (Customer Satisfaction)</i> | 85% | 90% | 95% |
| | | | |

- 5.4 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 well positioned to inform our opinion on the overall control, risk and governance environment.

5.5 There are some areas where we need to improve our efforts in 2016/17 and going forward:

- Implementation or escalation of recommendations was a little below target but continues to improve. Appendix A details the follow up reviews completed and the improvements in controls systems since our original work. This demonstrates the strength of support received from the Strategic Leadership Team and the Directorate Leadership Teams in ensuring control matters are taken seriously and agreed actions are implemented. For 2016/17 we will introduce a recommendations tracker to help management and ourselves ensure implementation of agreed recommendations.
- Our customer satisfaction ratings were a little below target. During 2016/17 we will review with customers how we can best capture their views on our service provision.

5.6 The following table also 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 | 35 | 32 |
| Fraud and Value for Money | 46 | 51 |
| Consultancy/Risk Management | 10 | 10 |
| Income Generating | 2 | 2 |
| Audit Service Development | 7 | 5 |
| Total | 100 | 100 |

Value for Money:

5.7 The Audit Service continues to demonstrate a clear value to the Council in excess of its cost. As detailed above, potential savings or recoveries as a result of work we have completed/influenced equated to approximately £1.4m. In addition to this, our assurance work identifies areas where implementation of our recommendations will improve value for money for the service under review/Council. The value of this element of our work is difficult to measure.

6. Escalation Matters:

- 6.1 Internal Audit operate a follow up and escalation procedure which requires all high and medium rated recommendations made in areas where the level of risk is red or amber on the corporate risk matrix to be subject to follow up review within 6 months (if feasible) of the original audit. However, during 2015/16 we implemented an interim reporting process which gives management early insight into key problem areas for prompt resolution prior to the official conclusion of our audit work and formulation of our opinion. This not only ensures that easily fixed control issues that will significantly impact on our opinion are implemented promptly but also negates the need for later follow up work and focuses the audit reports to those areas where solutions require more thought.
- 6.2 The Strategic Leadership Team have continued to take a strong stance on the failure to implement both internal and external audit recommendations and this support has had a positive effect on the implementation of recommendations throughout the year. Internal Audit have an open invitation to present to SLT any matters which they feel are not being addresses appropriately and where they feel SLT can have an impact.

7. Resources:

- 7.1 During 2014/15, internal audit reshaped its service to ensure it remained both cost effective and fit for purpose. For the greater part of 2015/16 the team was fully resourced to its new structure and resources were in line with planned. Again the team has benefited from a temporary resource from the Council's' Intern Placement Scheme'. The Intern member of staff has worked successfully with the team since January 2016 and remains with us into 2016/17 for the first quarter. He has benefited from working as part of a large and diverse organisation and he has been able to successfully deliver a number of audits during his time with us. This has contributed to the mitigation of the effect of an unplanned move of office which saw some considerable time used to clear our previous office building and storage and some long term sickness the team suffered last year. Additionally, we retain an apprentice to train as an auditor following the success of our previous apprentice and his progression to permanent employment within the team.
- 7.2 During 2016/17, we have developed our audit plan based on our new structure being fully resourced. This includes allowing for covering one member of staff from the Tenancy fraud team who will take maternity leave during the year.

8. Looking Forward:

- 8.1 The Internal Audit Service looks forward to the many challenges facing its own service and across the Council during 2016/17. Specifically, we will target the following developmental areas during the year:
- ❖ Researching the scope for selling some of our more specialist services to help the team's financial resilience to budget cuts going forward.
 - ❖ Relocation back to City Hall to maximise our use of office space and technology available to the team. This will also bring benefits of working in the same location of a significant number of our customers.
 - ❖ Development of audit process and technique to maximise assurances we are able to provide in the most efficient way including greater use of technology as and when it becomes available in line with the corporate agile and new ways of working. Additionally, we intend to look into assurance mapping around corporate risks and core governance processes.
 - ❖ Developing risk management processes to ensure they are fully aligned to key corporate processes for achieving mayoral and other priorities including planning, budgeting and performance management.
 - ❖ Researching our role in providing assurances with regard to the Council wholly owned companies
 - ❖ Ensuring we understand the impacts on the control, governance and risk management framework resulting from budget reductions across the Council
 - ❖ Keeping a watching brief on the devolution agenda and how it will impact on the Councils governance and risk arrangements and how joint assurances can be achieved
 - ❖ Working with the Audit Committee and management to ensure that external audit arrangements are secured for the audit of the Council's 2017/18 accounts.
 - ❖ Implementing our own service improvements to ensure we can demonstrate full compliance with the PSIAS.
 - ❖ Working with management to find ways to provide greater insight into the Council's risks and how they are managed.
 - ❖ Continue to develop good working relationships with the Council's new External auditors – BDO Ltd – to ensure audit assurance is maximised.

9. Context and Compliance:

9.1 Internal auditing 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).

9.2 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"

9.3 Internal Audit independence is achieved by reporting lines which allow for unrestricted access to the Elected Mayor, City Director, Strategic Leadership Team and Chair of the Audit Committee. There is one area where we have operational responsibility – Risk Management. An external review of the Council's risk management arrangements is planned for 2016/17 to ensure an independent review in this area is achieved. Whilst there has been no limitation to the scope of Internal Audit work during 2015/16, issues around independence have been identified as part of our self-assessment against the PSIAS as detailed in Appendix C.

Summary of Internal Audit Work 2015/16

PLANNED ASSURANCE WORK COMPLETED

| Directorate | Subject | Status | Level of Assurance | Residual Risk | Comments |
|-------------|---|-------------------|--------------------|---------------|--|
| CORP | Business Continuity Planning/Disaster Recovery | Complete | Partial | Red | Ineffective Business Continuity arrangements and failure to align planning with corporate objectives. |
| PL | Warm Up Bristol (Contract Letting & Monitoring) | Complete | Partial | Red | Lessons to be learned with regard to commissioning external contractors. |
| CORP | Procurement Waivers - review of waivers granted | Complete | Partial | Amber | Extensive use of Waivers, failure to follow Procurement Regulations. |
| CORP | Bristol Is Open (Partnership Governance) | Complete | Partial | Amber | Poor partnership governance. |
| PE | Liquid Logic (Childcare System) | Complete | Partial | Amber | Significant weaknesses in control over external users of the system. |
| CORP | Annual Governance Review and Statement | Complete for Year | N/A | Amber | There remain a number of outstanding actions in place to mitigate matters arising. |
| BC | BACS System | Complete | Acceptable | Amber | Issues regarding ownership of systems and disaster recovery. Level of risk due to the critical nature of the system. |
| CD | Green Capital - allocation of arts grants | Complete | N/A | Amber | Issues around the transparency of grant allocation process |
| CORP | Change Programme Financial Governance | Complete | Acceptable | Amber | Governance in place but level of risk due to value of expected savings |
| PE | Contracts – Monitoring of providers. | Complete | Acceptable | Amber | Level of risk due to value of procurement undertaken by the Council. |
| PE | Chester Park Junior | Complete | Acceptable | Green | |
| PE | Claremont - Special School | Complete | Acceptable | Green | |
| CD | Bristol 2015 - 1st Audit | Complete | Acceptable | Green | |
| CD | Bristol 2015 - 2nd Audit | Complete | Good | Green | |
| CD | Bristol 2015 - 3rd Audit | Complete | Good | Green | |
| PE | GC - Direct Payment Review | Complete | Acceptable | Green | |
| CORP | Transparency - Code Compliance | Complete | Acceptable | Green | |
| NH | Public Health - Alcohol and Drug Treatment Services | Complete | Acceptable | Green | |
| PE | East Bristol Intermediate Care Centre (incl procurement card usage) | Complete | Acceptable | Green | |
| PE | Review of Traded Service Function (schools) | Complete | Acceptable | Green | |
| PE | Bishop Road Primary | Complete | Acceptable | Green | |
| PE | Glenfrome Primary | Complete | Acceptable | Green | |
| PE | Badocks Wood Primary | Complete | Acceptable | Green | |
| PE | St Bonaventures Primary | Complete | Acceptable | Green | |
| PE | Knowle DGE Special | Complete | Acceptable | Green | |

| | | | | | |
|----|--|----------|------------|---------|--|
| PE | Ashton Park Secondary | Complete | Acceptable | Green | |
| PL | Facilities Management - Markets Operations | Complete | Acceptable | Green | |
| PE | SFVS Returns due by 31 March 15 - Q3 and Q4 work | Complete | Acceptable | Green | |
| PE | Filton Ave Nursery & Children's Centre | Complete | Acceptable | Green | |
| PL | Better Bus Area Fund 2 | Complete | Good | Green | |
| BC | ABW – Budgetary Control | Complete | Good | Green | |
| BC | Duplicate Payments - Effectiveness of Fiscal Solutions | Complete | Good | Green | |
| BC | Treasury Management | Complete | Good | Green | |
| PE | St Bernards Primary | Complete | Good | Green | |
| PE | Ashton Vale Primary | Complete | Good | Green | |
| PE | Elmlea Infant | Complete | Good | Green | |
| PE | Fair Furlong Primary | Complete | Good | Green | |
| PL | Harbour Management | Complete | Good | Green | |
| PE | Sefton Park Infant & Junior School | Complete | Good | Green | |
| BC | Registrars Finance Review | Complete | Partial | Green | |
| PE | Compass Point - South Street Childrens Centre | Complete | Partial | Green | |
| BC | Mobile device security | Interim | Interim | Interim | |
| PE | New Fosseyway Special | Interim | Interim | Interim | |

Planned Grant Certification Completed

| Directorate | Subject | Status | Level of Assurance | Residual Risk | Comments |
|-------------|---|----------|--------------------|---------------|----------|
| BC | Bath/Bristol Investment Funding April 12 - March 15 City Deal | Complete | Acceptable | Green | |
| CD | Carbon Efficiency Grant 14-15 | Complete | Acceptable | Green | |
| CORP | Urbact Grant | Complete | Acceptable | Green | |
| PE | Troubled Families Initiative Grant Certification Process – Complex criteria, January Certification | Complete | Acceptable | Green | |
| PE | Troubled Families Initiative Grant Certification Process – Complex criteria, June Certification | Complete | Acceptable | Green | |
| PL | Cycle City | Complete | Acceptable | Green | |
| PL | LSTF West | Complete | Acceptable | Green | |
| PL | LSTF Key Component | Complete | Acceptable | Green | |
| PL | Better Bus Area Fund 2 | Complete | Acceptable | Green | |
| PE | Disabled Facilities Grant | Complete | Acceptable | Green | |
| PE | Troubled Families Initiative Grant Certification Process – Complex criteria, Sept Certification process | Complete | Acceptable | Green | |
| PE | Bristol Early Years Grant component | Complete | Acceptable | Green | |
| NH | Scambuster Grant Audit | Complete | Acceptable | Green | |

PLANNED FOLLOW-UP AUDIT WORK COMPLETED

| Directorate | Subject | Status | Original Level of Risk | Residual Risk | Comments |
|-------------|--|----------|------------------------|---------------|--|
| BC | Housing Rents - Follow up | Complete | Interim | Amber | Issues around former debt of current tenants not effectively collected |
| PE | Ilminster Avenue Specialist Nursery & Childrens Centre follow up | Complete | Amber | Green | |
| BC | ABW – Ordering and Payments | Complete | Interim | Green | |
| BC | ABW - Bank Reconciliation & Income Manager | Complete | Interim | Red | Despite two follow-up reviews there remain issues with reconciliations. |
| BC | ABW – Debtors | Complete | Interim | Amber | Controls are acceptable, but there remain areas where further works is required. |
| BC | Scan Coin Issues | Complete | Amber | Green | |

PLANNED ASSURANCE WORK IN PROGRESS AT YEAR-END

| Directorate | Subject | Status | Comments |
|-------------|--|-------------|-----------------------------------|
| CORP | Procurement Processes - Efficiency Review(Cohort 4) | In progress | |
| BC | Housing Benefits | In progress | |
| BC | Value Added Tax | In progress | Draft report - acceptable control |
| BC | Procurement - Review of a sample of tenders | In progress | |
| CORP | Corporate Panel Effectiveness (Pay and non pay) | In progress | |
| CORP | Staff Declarations of Interest (tier 4 and below) | In progress | |
| CORP | Schemes of Delegation | In progress | |
| CORP | Contracts where payments made in advance | In progress | |
| CORP | Recruitment & Selection (inc Disclosure and Barring Service Checks) | In progress | |
| NH | Housing Management IT System | In progress | |
| NH | Sports Centres contract | In progress | |
| PE | Safeguarding (Adults) | In progress | |
| PE | Budgetary Control - People Directorate | In progress | |
| PE | Bristol Community Links 3 Hubs | In progress | |
| PE | Ashley Down Federated School | In progress | |
| PE | Broomhill Infant | In progress | |
| PE | Badocks Wood CC | In progress | |
| PE | Knowle EYC & Children's Centre | In progress | |
| PE | St Pauls Nursery and Childrens Centre - follow up | In progress | |
| PE | School Fund Audit Certificate - Monitoring and chasing the return of Audit Certificates. | In progress | |

| | | | |
|------|---|-------------|--|
| PE | Better Care Funding Stream - Integrated Re-ablement and Mental Health | In progress | |
| PE | SEN Spending - Non DSG | In progress | |
| PL | Corporate Capital Programme Board | In progress | |
| PL | Scheme of Delegation - Place | In progress | |
| CORP | Docks Valuation - Process Review | In progress | |
| PE | Four Acres Primary School | In progress | |

PRO-ACTIVE FRAUD/VFM AGENDA

| Subject | Status | Residual Risk | Comments |
|---|-------------|---------------|---|
| Direct Payment - Fraud Control Review | Complete | Amber | Partial control - key issue around review of care needs and ongoing requirement for direct payments. |
| Continuous Data Matching - Research Citizen Index | Complete | N/A | |
| Council Tax Reduction - Case work | Complete | N/A | |
| Benefit Fraud - info exchange, monitoring outcomes. | Complete | N/A | |
| Council Tax Reduction - Development of Counter Fraud response | Complete | N/A | |
| NFI - Main download 2015 | Complete | N/A | |
| ID Validation project | Complete | N/A | |
| Fraud and warning bulletins | Complete | N/A | |
| ELT Fraud awareness session | Complete | N/A | |
| Fraud Cause and Prevention Review | Complete | N/A | |
| Fraud Policy Review | Complete | N/A | |
| Investigation Protocol Review | Complete | N/A | |
| National Fraud Benchmarking Questionnaire - CIPFA | Complete | Green | |
| Transparency Code | Complete | N/A | |
| Fraud Update Report | Complete | N/A | |
| Selling Tenancy Fraud Service- Research | Complete | N/A | |
| Tenancy Fraud Initiative | Complete | N/A | |
| Housing Register NFI exercise | Complete | N/A | |
| Tenancy Fraud awareness training new Estates staff | Complete | N/A | |
| No Recourse to Public Funds - Fraud Control Review | Complete | Amber | Acceptable controls are in place but risk level due to inherent fraud risks which cannot reasonably be mitigated. |
| Parking income analysis | Complete | Green | |
| Blue badge/concessionary fares, Parking Zone - Fraud Control Review | Complete | Amber | Risk level mainly due to inherent risks in this area rather than control issues. |
| Caretaker Tenants | In progress | | |
| NNDR Fraud Control Review | In Progress | | |
| Money Laundering Review | In Progress | | |
| Fiscal Fraud Module | In Progress | | |

| | | | |
|--|-------------|--|--|
| Purchase and Credit Card usage review | In Progress | | |
| NFI Output Review | In Progress | | |
| Fraud Risk Register Review | In Progress | | |
| Fraud web pages review | In Progress | | |
| Whistleblowing compliance with best practice including confidence survey | In Progress | | |
| Schools Fraud Healthcheck | In Progress | | |
| Fraud Awareness Training - Schools | In Progress | | |
| Homelessness review + testing | In Progress | | |
| Approach to debt recovery in care services (foster care, meals service) | In progress | | |

CONSULTANCY/ADVICE WORK COMPLETED/IN PROGRESS AT YEAR END

| Subject | Status |
|---|-------------|
| HR - New IT System | Complete |
| Information Assurance Board Attendance | Complete |
| Audit Committee Support and Development | Complete |
| Corporate Risk Register Reviews | Complete |
| Risk Management Guidance (incl web) | Complete |
| Risk Management Policy Review | Complete |
| Risk Management Overview and Reporting | Complete |
| Risk Mangement Benchmarking/Best Practice | Complete |
| Energy Company - Audit and Advice | Complete |
| Financial Regulations Development | In Progress |
| External Audit Liaison | On going |

DEVELOPMENT PROGRAMME

| Subject | Status |
|--|-------------|
| Attendance at Networking Groups | Complete |
| Intranet Update and Maintenance | Complete |
| Service Benchmarking (Core Cities) | Complete |
| Audit Charter, Terms of Reference and Strategic Statement Update | Complete |
| Service Performance Monitoring/Development/Marketing | In Progress |
| Staff Training | Ongoing |

Appendix B - Protecting the English Public Purse Fraud Briefing 2015

Bristol City Council

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Purpose of Fraud Briefing

1. Provide an information source to support councillors in considering their council's fraud detection activities
2. Extend an opportunity for councillors to consider fraud detection performance, compared to similar local authorities
3. Give focus to discussing local and national fraud risks, reflect on local priorities and the proportionate responses needed
4. Be a catalyst for reviewing the council's current strategy, resources and capability for tackling fraud

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About TEICCAF

The European Institute for Combatting Corruption And Fraud

Not for profit charity seeking to provide counter fraud and corruption strategic vision and thought leadership for public sector and charity organisations

Staffed by the former Audit Commission Counter Fraud Team

Continuation of expertise on the fraud risks facing councils

Continuation of the award winning '*Protecting the Public Purse*' reports

Working collaboratively with public sector bodies, charities and private companies across the UK, Europe and around the World

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Understanding the bar charts

All data are drawn from council submissions for the TEICCAF annual fraud and corruption survey for 2014/15

Your council is compared with the other unitary authorities from the South West and South East taking part in the voluntary survey

The survey submission rate for all council types in England was: 59.5%

Your council for detected cases is shown in Yellow

Your council for detected value is shown in Red

All averages are 'mean' averages

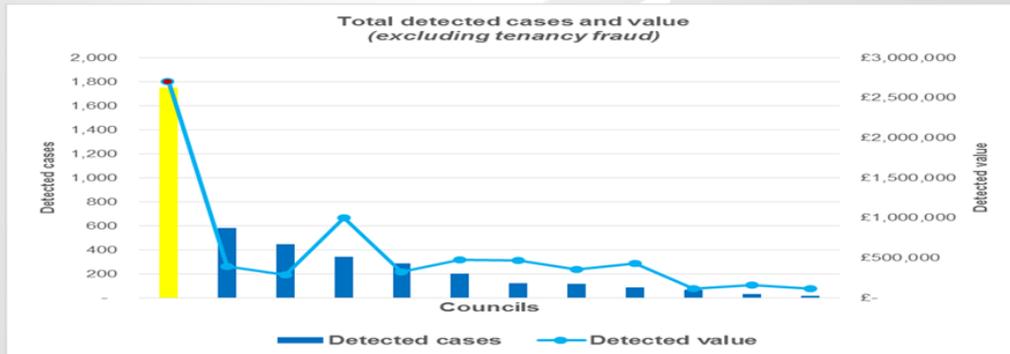
In some cases, councils report they have detected fraud and do not report the number of cases and/or the value - for the purposes of this fraud briefing these '*Not Recorded*' records are shown as Nil

NB it is always best practice to ensure counter fraud activity is accurately and comprehensively recorded, particularly for assessing fraud risk

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Total detected cases and value (excluding Tenancy fraud)



Your council - Total number of detected cases: 1,752. Total detected value: £2,703,363.

Comparator council average – Detected cases: 337. Detected value: £569,038.

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Housing benefit (HB) and council tax benefit (CTB)

The investigation of benefit fraud is transferring from councils to the Department for Work and Pensions Single Fraud Investigation Service (SFIS)

Some councils have already transferred their benefit fraud investigators to SFIS, the remaining councils should have done so by March 2016

This makes the comparison of HB/CTB of little value, as some council did not investigate HB/CTB in 2014/15, or others only a part of the year

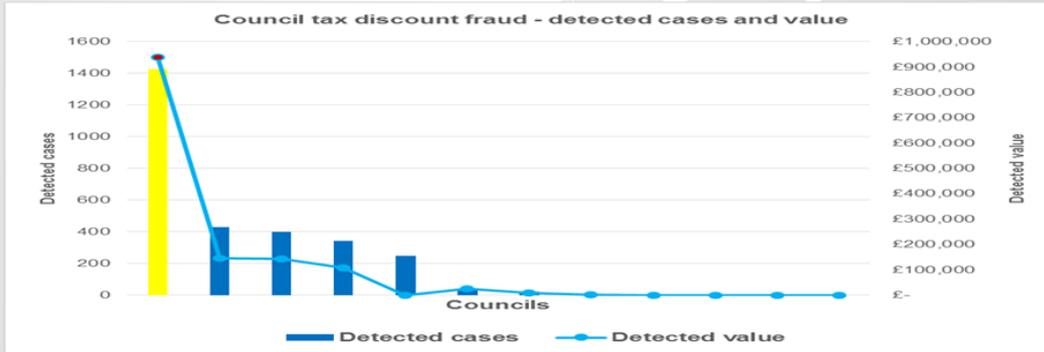
However, you may wish to ask:

- Does my council have enough counter fraud resource to tackle non-benefit fraud post SFIS?
- Does my council's counter fraud resource have the skill sets to tackle the wide and varied range of non-benefit frauds?
- Is there a partnership working arrangement available that helps provide a counter fraud resource and value for money?

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Council tax discount fraud



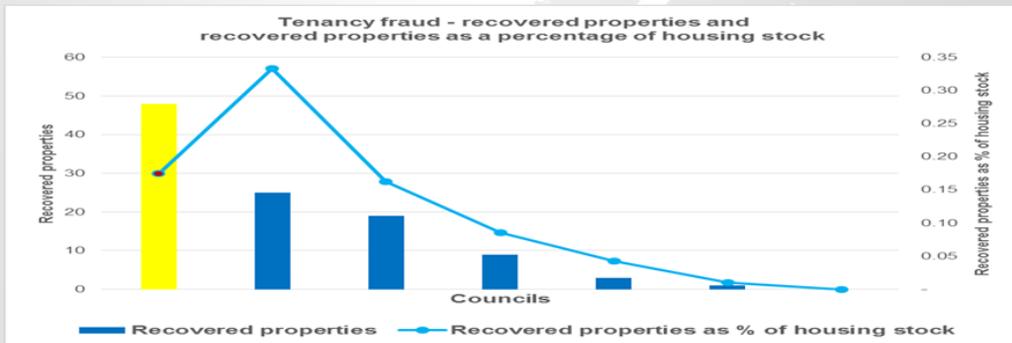
Your council - Total number of detected cases: 1,425. Total detected value: £936,981.

Comparator council average – Detected cases: 242. Detected value: £114,075.

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Tenancy fraud (only councils with housing stock)



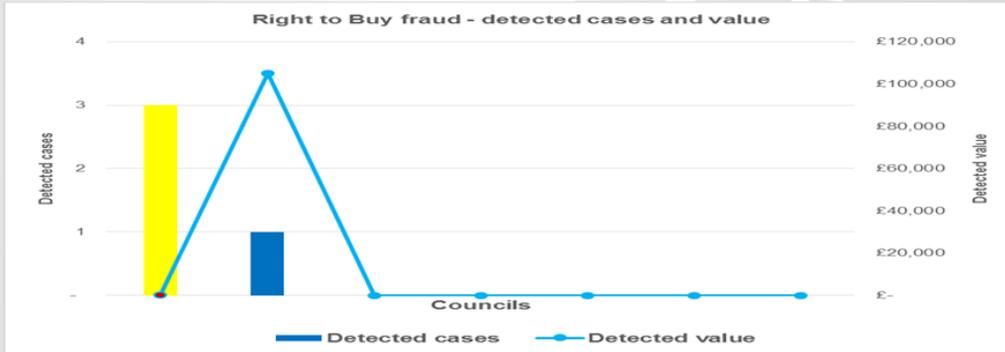
Your council - Total number of recovered properties: 48

Comparator council average – Recovered properties: 15

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Right to Buy fraud



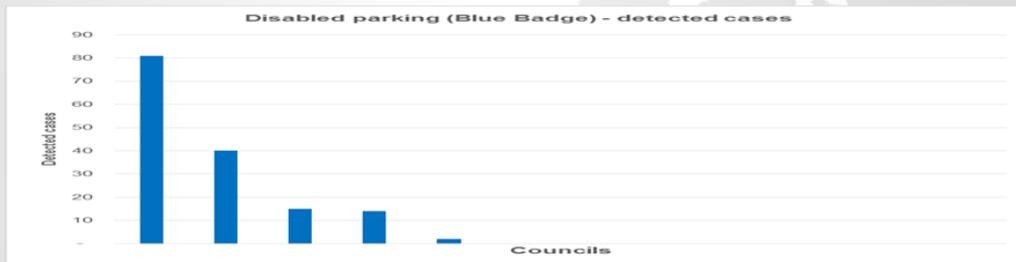
Your council - Total number of detected cases: 3. Total detected value: nil.

Comparator council average – Detected cases: 1. Detected value: £15,000.

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Disabled parking (Blue Badge) fraud



Your council - Total number of detected cases: nil.

Comparator council average – Detected cases: 13.

NB It is difficult to calculate the value of Blue Badge fraud. However, fraud causes social, as well as financial, harm – particularly the undermining of public confidence in public services

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Other frauds

Procurement fraud

Your council - Total number of detected cases: nil.
Comparator council average– Detected cases: 1. Detected value: £188.

No recourse to public funds fraud

Your council - Total number of detected cases: nil.
Comparator council average– Detected cases: nil. Detected value: nil.

Social care fraud

Your council - Total number of detected cases: 1. Detected value: £4,253
Comparator council average– Detected cases: 1. Detected value: £4,697

Insurance fraud

Your council - Total number of detected cases: 1. Detected value: £0
Comparator council average– Detected cases: 1. Detected value: £0.

Economic and third sector fraud

Your council - Total number of detected cases: nil.
Comparator council average– Detected cases: 1. Detected value: £1,300.

Internal fraud

Your council - Total number of detected cases: 2. Total detected value: no value recorded.
Comparator council average– Detected cases: 1. Detected value: £6,882.

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Further information and support

The 'Protecting the English Public Purse 2015' (PEPP) report and the 'Protecting the London Public Purse 2015' (PLPP) report are available at www.teiccaf.com

These reports also contain a counter fraud checklist for councils to use – questions you may wish to ask:

- Are local priorities reflected in our approach to countering fraud?
- Have we considered counter-fraud partnership working?
- Are we satisfied that we will have access to comparative information and data to inform our counter-fraud decision making in the future?

If you have any questions concerning:

- this fraud briefing;
- TEICCAF; or
- how TEICCAF can support you in counter fraud, counter corruption and anti-money laundering?

Please contact Jo O'Shea (Secretary to the Board) jos@teiccaf.com

TEICCAF, and our sponsor, 'INTEC for business', hope you found this fraud briefing useful and encourage your council to participate in the 2015/16 TEICCAF annual fraud and corruption survey

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**Compliance with Public Sector Internal Audit Standards
Action plan to Address Issues Raised in Self-Assessment**

| Area of Non Compliance with Standards of the Local Government Application Note (LGAN): | Further Action Plan |
|--|---|
| <p><u>Independence</u></p> <p>The PSIAS require Internal Audit to be independent and objective. Where internal audit has responsibility for other functions or operations then this potential impairment should be disclosed. The PSIAS (1130.A2) requires assurance engagements for functions over which the Internal Audit Service (IAS) has responsibility to be overseen by a party outside the IAS.</p> <p>Issue 1: The IAS has responsibility for oversight of the Council's risk management function and the collation and presentation of the Annual Governance Statement (AGS). However, this responsibility is disclosed in the Internal Audit Charter and Annual Report. Regarding the AGS, the role relates to the collation of the statement and associated management assurances. The Chief Internal Auditor (CIA) has no line management responsibility for corporate governance functions. The CIA does line manage the risk management function.</p> <p>Issue 2: The standards and LGAN consider that the CIA should not report administratively to or be managed at a lower organisational level than the corporate management team. However, the CIA is line managed by the Service Director – Finance, who is the s151 Officer but not an SLT member. Additionally, the Director of Finance is a key customer of the Audit service and this could lead to potential conflicts. The CIA has unrestricted access to the City Director and SLT. Additionally, the CIA has clear reporting arrangements to the Audit Committee and a good working relationship with them has been established. The Chief Internal Auditor does not consider that line management arrangements have resulted in any practical loss of independence during 2015/16.</p> <p>Issue 3: The standards require that the City Director and Chair of the Audit Committee should be involved in the performance appraisal of the CIA. The latter requirement is included in the Audit Committee terms of reference but to date neither the City Director nor Audit Committee Chair has been directly involved in the appraisal of the CIA.</p> | <p>The CIA will commission an external party to undertake an assurance review of risk management. Implementation Date: 2016/17</p> <p>The City Director and Audit Committee Chair will be asked to have direct input into the appraisal of the CIA. Implementation Date: 2017/18</p> <p>The reporting arrangements for the CIA referred for consideration at the Statutory Officers' Group. Implementation Date: 2016/17</p> |
| <p><u>Training Strategy</u></p> <p>Issue 4: The PSIAS require the IAS to continually improve its proficiency and effectiveness and quality of service. The Internal Audit Charter refers to a training strategy being in place. In practice this has fallen into abeyance following re-organisation and staff change. Some skills gaps have been identified in computer audit and procurement audit. However, the Councils 'My performance' reviews also identify training and development needs for staff members individually.</p> | <p>The CIA will put in place a Training Strategy for 2016/17 and beyond. Implementation Date: 30th September 2016</p> |
| <p><u>Notification of Fraud</u></p> | |

| Area of Non Compliance with Standards of the Local Government Application Note (LGAN): | Further Action Plan |
|--|--|
| <p>Issue 5: The LGAN requires the arrangements that exist within the organisation's anti-fraud and anti-corruption policies, requiring the CIA to be notified of all suspected or detected fraud, corruption or impropriety, to inform his or her annual internal audit opinion and the risk-based plan to be detailed in the Audit Charter. The Internal Audit Charter refers to BCC's Anti-Fraud, Bribery and Corruption Policy and the need for the IAS to be notified of all suspected or detected fraud, corruption or impropriety. However, the wording of the Anti-Fraud, Bribery and Corruption Policy could make this clearer to managers and staff across the Council.</p> | <p>The CIA will amend the Anti-Fraud, Bribery and Corruption Policy to clarify the need for the IAS to be notified of all suspected or detected fraud, corruption or impropriety. Implementation Date: January 2017</p> |
| <p>Auditor Objectivity</p> <p>Issue 6: The LGAN refers to the possibility that long-term responsibility for the audit of a particular activity can lead to over-familiarity and complacency that could influence objectivity; hence audit responsibilities should be rotated from time to time within the internal audit team. The IAS does not have a formal policy on staff rotation. In practice reorganisation and staff change has meant there has been considerable turn around in staff.</p> | <p>The CIA will determine and implement a policy on audit rotation. Implementation Date: December 2016.</p> |
| <p>Policies and Procedures</p> <p>Issue 7: The PSIAS require the Chief Internal Auditor to establish policies and procedures to guide the internal audit activity. A number of policies and procedures are summarised in the Internal Audit Charter. There is no complete audit manual or automated audit management system in place, although the latter is being considered. The policies and procedures are in need of review to ensure completeness and continued relevance.</p> <p>Issue 8: The LGAN requires all IAS work to be subject to an appropriate internal quality review process. The IAS uses standardised electronic working papers to ensure consistency of approach. A review of a sample of electronic audit files indicated some inconsistency in completion and retained documentation. A review of a sample of audit files indicated that while the work and reports had been subject to comprehensive manager review, some evidence of this was incomplete or missing from the electronic audit file.</p> | <p>The CIA will review policies and procedures to ensure completeness and continued relevance for 2016/17.</p> <p>A review of the internal audit electronic working papers is under way for use in 2016/17 to ensure that they effectively demonstrate compliance. Refresher training for the IAS will be provided to ensure consistency of completion and retention.</p> <p>Implementation by August 2016.</p> |
| <p>Assurance Mapping</p> <p>Issue 9: The LGAN suggests that the mapping of assurances available over the operation existence and operation of the Council's governance systems and processes will be useful in informing the allocation of internal audit work and determining where other assurances may be obtained. Mapping of assurances over the Council's governance systems and processes commenced in 2015/16. This work will continue in 2016/17 having regard to changes in governance following the 2016 Council election and the issue of CIPFA/SOLACE guidance 'Delivering Good Governance in Local Governance' which is extant for 2016/17.</p> | <p>The CIA will continue assurance mapping over Governance systems and processes in 2016/17. It is included in the 2016/17 plan.</p> <p>Implementation by March 2017.</p> |