



BRISTOL INTERNAL AUDIT

INTERNAL AUDIT: ANNUAL REPORT 2020/21

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Simba Muzarurwi
Chief Internal Auditor



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Appendix A: Summary of Internal Audit work completed/in progress during the period.
Appendix B: Strategic Risk Map 2020/21
Appendix C: First Line Management Assurance Statements Summary

1. Purpose of this Annual Report

1.1 This Annual Report provides a summary of the work completed by Internal Audit during 2020/21. Its purpose is to:

- Provide the Chief Internal Auditor's annual opinion on the overall adequacy and effectiveness of the Council's governance; risk management and control framework during 2020/21. This opinion is an integral part of the Council's governance framework, providing assurance to inform the Annual Governance Statement, and identifying improvement opportunities.
- 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.

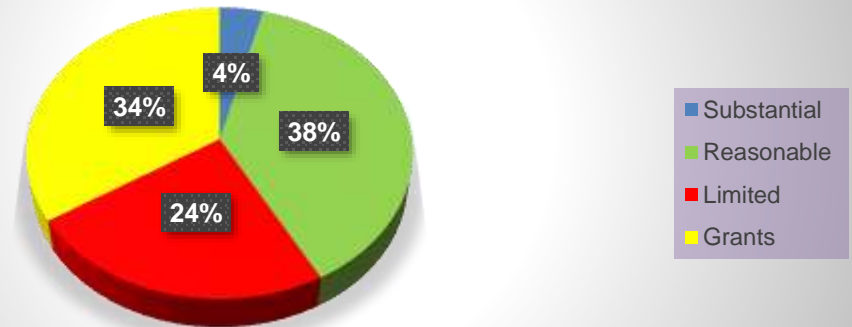
2. Chief Internal Auditor Annual Opinion:

2.1 This report provides a summary of the work undertaken by Internal Audit in 2020/21 and the results of that work together with the Chief Internal Auditor's overall opinion on the adequacy and effectiveness of the Council's systems of internal control, governance and risk management.

- Based on audit work completed and knowledge of the organisation, **Reasonable Assurance** can be given that in 2020/21, the Council's systems of internal control, governance and risk management were adequate and operating effectively. **This improved opinion reflects the progress made by the Council in addressing some of the long outstanding audit issues that had remained unresolved for a few years and also acknowledges that there are some areas that still require improvement.** Table 1 shows a distribution of assurance levels given during the year.
- During the year the Covid19 pandemic presented both direct and indirect health and economic threats which disrupted businesses and markets, slowed productivity, and generated huge public-health expenditures. Despite these unprecedented challenges, the Council was able to effectively collaborate with its key partners in protecting Bristol residents and communities and ensuring that the vital public services that people depend on every day were maintained in very difficult circumstances.
- In response to Covid19, there was need for the Council to immediately change the way that governance structures operated to facilitate an appropriate response. Internal Audit did not identify governance failings during the period and senior management provided written assurances that all decisions made during the pandemic had been appropriately approved and published.
- **In noting this opinion, it must be acknowledged that the Council is a large and complex organisation working towards delivering innovative and transformational services to Bristol residents in a challenging environment. The organisation's improvement journey is not yet complete as there are some areas of the business such as those listed in Section 3 that may expose the organisation to risk. Whilst it is recognised that some improvements will take time to embed, it is important that those areas identified as requiring improvement are prioritised and sufficiently resourced. The Corporate Leadership Board acknowledges this and is putting in arrangements that should ensure this positive trajectory is maintained.**

Table 1

20/21 Audit Opinion Assurance Level



2.2 The Chief Internal Auditor's annual opinion is based on a combination of the assurance work undertaken during the year (as set out in the annual audit plan) and the assessment of other available evidence and assurances about the organisation's arrangements for internal control and managing risk. Full details of the audit work completed that has informed the opinion are in **Appendix A**. As well as the results of our own work, we have also considered other sources of assurance available to us as explained below:

- **Assurance mapping** – An assurance mapping exercise on 11 strategic risks was completed and concluded that there were sufficient assurance activities across most of these risks. The resultant assurance map is **Appendix B** and areas identified as having assurance gaps were considered as part of the 2021/22 annual planning cycle.

- **Management assurance** – As part of the Annual Governance Statement process, Heads of Service and Directors are required to complete self-assessments on the effectiveness of controls in the areas of responsibility. In 2020/21, most areas were assessed as operating well and a few areas such as Mandatory Training, Risk Registers, Business Continuity Planning and Value for Money arrangements were identified as either having gaps or developing. **Appendix C** provides a summary of these first line management assurances.
- **External Audit Reports** – Grant Thornton, the Council's External Auditors presented their Audit Findings Report for 2019/20 in March 2021. This report summarised the key findings and other matters arising from the statutory audit of the Council and the preparation of the group and Council's financial statements for the year ended 31 March 2020. The Chief Internal Auditor has acknowledged the External Auditor's unqualified opinion on the 2019/20 Statement of Accounts and their conclusion that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources except for the matter they identified in respect of governance arrangements in relation to Bristol Energy Limited. It is the Chief Internal Auditor's view that the Council is taking appropriate actions to address issues raised within the External Auditor's reports.
- **Covid19 Assurance** – Assurance work was undertaken regarding the Council's response to the pandemic and resultant emerging risks. **Reasonable assurance** was obtained that the Council had and continued to respond effectively to Covid19. The Council had key governance structures in place and successfully adopted the One City Approach enabling it to effectively work with its key partners in protecting Bristol residents and communities and ensuring that the vital public services that people depend on every day were maintained in very difficult circumstances. In addition, Internal Audit supported operational management in developing operational protocols and frameworks appropriate for the new emergency environment. A lot of audit time was also spent in completing pre and post payment fraud checks relating to government grants earmarked for supporting businesses and individuals during the pandemic.
- **Internal Audit Business Knowledge** – The Chief internal Auditor's opinion is also informed by the organisational knowledge acquired through ongoing advice and liaison with the Corporate Leadership Team, Statutory Officers, Executive Directors and senior management, including regular attendance by the Chief Internal Auditor, Deputy Chief internal Auditor and Audit Managers at relevant organisational meetings relating to risk, governance, internal control and fraud matters.

Impact of the Covid19 coronavirus pandemic on internal audit activities

- 2.3 The Covid19 pandemic has had a significant impact on the operations of the Council and Internal Audit in 2020/21. The prolonged uncertainty and disruption brought by the pandemic caused significant issues with the delivery of the planned internal audit work. It was apparent the Council was dealing with a set of new challenges which demanded rapid responses and altering the organisation's risk landscape. Realising the complexity of the crisis, internal audit activities were suspended in Quarter 1 to give management and business units breathing space to get on dealing with the crisis with some internal audit colleagues being redeployed to support the pandemic response. Furthermore, there were three national lockdowns that came with restrictions on non-essential travel and social distancing which meant that both internal audit and Council staff worked from home significantly changing the way internal audits were undertaken. All audits were conducted remotely resulting in the internal audit process taking longer than normal and it proved challenging for management to effectively balance internal audit requests and

ongoing response to the pandemic. Consistent with our rolling audit planning methodology, the approved audit plan was reviewed by the Audit Committee quarterly to take into consideration discussions with management, emerging issues from the Annual Governance Statement, new risks, and organisational developments. This new approach is seen as an effective way of managing audit resources.

3. Areas Requiring Further Improvement:

- 3.1 The Chief Internal Auditor's improved **reasonable assurance** opinion reflects the progress being made by the organisation in addressing some of the long outstanding issues in key operational areas. **Appendix A** provides details of all work completed by Internal Audit and the conclusions from this work. Areas where limited or no assurance opinions were given require improvement to ensure governance and control arrangements are strengthened going forward. The Chief Internal Auditor accepts that 2020/21 was a difficult year as management was faced with a significant challenge of managing Covid19 response and balancing business as usual and recovery planning. As a result, the progress in the implementation of some of the required improvements was hampered by Covid19. Some of the key areas that require further developments are:
- Harbour
 - Cyber Security
 - Better Lives Programme
 - Risk Management
 - Information Technology Transformation Programme Closure
 - Capital portfolio governance framework
- 3.2 Issues identified during the audits were discussed and agreed with relevant management. Management have put in place action plans identifying appropriate management actions, owners for each action and target timeline for completion. These agreed management actions are subject to regular monitoring and reporting through the 'Pentana Audit' management system. During the year there was notable increase in senior management oversight over previously agreed management actions. Given the importance and serious implications of risks associated with the areas identified there is need to ensure that the improvement plans are sufficiently resourced to sustain the current direction of travel. The Corporate Leadership Team should regularly receive update reports throughout the year in terms of progress being made in delivering essential improvements required in these areas.

Counter Fraud Arrangements

- 3.3 Bristol City Council takes a proactive and zero tolerance approach to fraud and has a strong fraud policy. A Counter Fraud and Investigations Team (Counter Fraud) 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.

- 3.4 Like all other Council services, the Counter Fraud team were also significantly impacted by Covid19. Due to the restrictions arising from the three national lockdowns, tenancy fraud work was limited as visits could not be made and court action not progressed particularly in the first five months of the year. The benefits investigation work also reduced significantly with the DWP taking its 'Trust and Protect' approach during this time. In Quarter 1, two members of the team were seconded to the Corporate Communications Service to assist with public enquiries in relation to Covid19.
- 3.5 The Counter Fraud team supported colleagues in responding to Covid19 through:
- development of a fraud risk assessment relating to the emergency measures implemented by the Council and worked with management to understand and appropriately manage those risks.
 - working with the Council's Revenues and Benefits Teams to advise on arrangements for payment of the emergency Business Rate Grant funding and hardship funds.
 - completion of pre and post payment fraud checks on the emergency business grants payments.
 - increased fraud testing in accounts payable post emergency.
- 3.6 During the year, responsibility for Whistleblowing arrangements transferred to Internal Audit to provide a more independent investigation response and enhance confidence in reporting. An independent annual review of these arrangements by the South West Audit Partnership provided substantial assurance on the effectiveness of the processes and systems. A report to that effect was presented to the Audit Committee in March 2021. Details of whistleblowing cases are provided in the Counter Fraud Annual Report 2020/21.
- 3.7 The adequacy of arrangements regarding fraud within the Council is monitored through the corporate risk register. Due to Covid19, the level of risk increased significantly due to the level of grants and support to businesses which were distributed at pace as part of the government's response to the pandemic. The Council responded by implementing a programme of pre- and post-payment checking. In addition, the Council continued to work on establishing a fraud hub that uses advanced analytics and more datasets to increase the detection and prevention of fraud across the region. Approval was granted to complete a soft market testing to inform an Outline Business Case that will be considered by the Corporate Leadership Board in September 2021.
- 3.8 Full details of the work of the Counter Fraud and Investigations team can be found in the Counter Fraud Annual Report 2020/21.

School Financial Governance and Management

- 3.9 Due to the Covid19 pandemic it was very difficult to conduct any meaningful audits in schools. It was the Chief internal Auditor's view that the circumstances prevailing in schools across the City coupled with random outbreaks did not allow effective assurance activities. As such no audits were undertaken in schools during the period under review. This work will be prioritised in 2021/22.

Follow Up of Agreed Management Actions

- 3.10 The use of the new Pentana Audit system has offered an automated process for dealing with agreed management actions and allows management to proactively manage and monitor their performance in the area. In addition, there has been a lot of effort by both senior management and internal audit in ensuring that agreed management actions are being implemented within agreed timelines. Senior management oversight and regular reporting at all management levels should be maintained to sustain this good performance.

4. Internal Audit Service Delivery 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:
- 4.2 Internal Audit also provides the Council's counter fraud response, covering not only the investigation of allegations of 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 2020/21.
- 4.3 Benefits generated for the Council from Counter Fraud work undertaken in 2020/21 are:

- Recoverable over payments more than £1 million have been identified.
- Notional savings of £1.3 million.
- Managed 233 referrals
- 19 Council housing properties regained, or other positive outcomes achieved.
- 162 Right to Buy applications checked.
- Several corporate investigations completed resulting in 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. 17 such grant claims were certified during 2020/21 with a value more than £19 million. 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. Some of the work undertaken is reflected in Appendix A.

Performance Against Targets:

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

Table 2

| | 2020/21 Actual | 2019/20 Actual | Target |
|---|----------------|----------------|--------------|
| *% of planned work completed/in progress | 94% | 91.5% | 90% |
| High/Medium agreed management actions Implemented | 92% | 76% | 75% |
| No. of Properties (or other positive housing outcomes) recovered by tenancy fraud work. | 19 | 41 | 30 (2020/21) |
| % of QAQs with a score of 4 or more (Customer Satisfaction) | 80% | 83.1% | 75% |
| Delivery of 2019/20 Audit Opinion to management and Audit Committee in time to inform the AGS | Yes | Yes | - |
| Annual Governance Statement delivered within statutory deadlines | Yes 2019/20 | Yes 2018/19 | - |

* The assurance plan was regularly reviewed by the Audit Committee during the year to consider Covid impact and the resourcing challenges faced by the Internal Audit Team.

The Quality Assurance and Improvement Programme

- 4.7 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 2020 included the update on the implementation of recommendations arising from the previous Peer Review of the Internal Audit Service and further identified new improvement actions required to enhance the delivery of internal audit services in the Council.

Organisational independence

- 4.8 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. In addition, Internal Audit now have responsibility for managing whistleblowing arrangements. To avoid the self-review risk, an independent audit is commissioned annually as detailed above.
- 4.9 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. The Chief Internal Auditor also meets regularly with the Chief Executive, Section 151 Officer and Monitoring Officer. The Chief Internal Auditor has confirmed that nothing has occurred during the year that has impaired his personal independence or objectivity.
- 4.10 A three-year Internal Audit Strategy was approved by the Audit Committee in November 2019 and reviewed in 2020/21. The Strategy contains some improvements and initiatives that will enable Internal Audit to provide value-added services and proactive strategic advice to the organisation in addition to the effective and efficient delivery of the annual audit plan. Some of the new initiatives include.
- Implementing a continuous monitoring and auditing methodology to enable management to continually review business processes for adherence to and deviations from intended levels of performance and effectiveness and internal audit to continually gather from processes data that supports auditing activities.
 - Introducing agile auditing methodologies to provide more rapid responses to changing business assurance needs.
 - Supporting the Council's overall Covid19 recovery response ensuring that operating structures are resilient, sustainable and support good decision-making, risk management and communication

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 has been carrying several vacancies which have been very difficult to fill. During the year some progress was made as we have been able to recruit two permanent Group Auditors and an Auditor. Due to delays in the recruitment process we utilised both fixed term appointments and interims to complete the revised audit plan. Given that we were operating in a Covid environment that made it difficult to meet face to face with new colleagues, the settling in and completion of audits took longer than anticipated.
- 6.2 During the year, the plan was delivered largely by the in-house team with some support from KPMG, our Internal Audit Strategic Partner. The contract with KPMG started on 1 February 2021. KPMG have been appointed to support our core delivery arrangements and facilitate the transfer of knowledge through joint audit projects as well as providing training to enhance our commercial and specialist skills. This partnering arrangement will also ensure the team is more resilient and enhances the ability to effectively deal with emerging risks and changing assurance requirements.
- 6.3 The savings from the vacancies we currently hold are used to fund the KPMG contract.

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 Section 151 Officer, and the Chair of the Audit Committee.