



BRISTOL INTERNAL AUDIT

INTERNAL AUDIT: ANNUAL REPORT 2021/22

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1. Purpose of this Annual Report

1.1 The purpose of the Internal Audit Annual Report is to:

- Provide the Chief Internal Auditor's annual internal audit opinion which is based on an objective assessment of the framework of the Council's governance, risk management and control. This opinion is an integral part of the Council's governance framework, providing assurance to inform the Annual Governance Statement, and identifying improvement opportunities.
- Summarise the activities of internal audit for the period under review.
- Highlight any areas of significant risk exposure requiring improvement to enhance the internal control framework.
- Consider the performance and contribution of the Internal Audit service.

2. Chief Internal Auditor Annual Opinion:

2.1 This section provides the Chief Internal Auditor's overall opinion on the adequacy and effectiveness of the Council's systems of internal control, governance and risk management and the body of evidence to support the opinion.

- Overall, **Reasonable Assurance** can be provided that in 2021/22, the systems of internal control, governance and risk management designed to meet the Council's objectives were adequate and operating effectively. In forming this view we have considered the continued decrease in the number of limited assurance opinions, significant improvement in the implementation, monitoring and reporting of agreed management actions as well as the increased oversight by the Corporate Leadership Board in assessing progressing in improving the governance and internal control arrangements in areas that were identified as requiring improvement in the previous year. Table 1 shows the level of limited assurance opinions over the last 4 years and Table 2 shows a distribution of assurance levels given during 2021/22.
- As with all other organisations, the Council had to respond and adapt to global developments and emerging risks. The Council continued working with its partners to address the challenges brought by the Covid-19 pandemic as well as considering the needs of recovery and renewal. During the 2021/22 financial year, **reasonable assurance** was provided on the adequacy and effectiveness of the Council's Covid19 recovery arrangements.
- In noting this opinion, it must be acknowledged that the Covid-19 pandemic has had significant and far reaching implications for the Council and the City, and the consequences – both direct and indirect – will continue for many years to come. In addition, other global and national developments such as the Russia-Ukraine War and Brexit have created significant risks that have altered the organisation's risk landscape. As a consequence, the Council should continue to prioritise key governance, internal control and risk management improvements that enable the current positive trajectory to be maintained. Being an ambitious organisation, the Council inevitably has many priorities and transformation initiatives, but a robust prioritisation process is imperative so that the organisation only focuses on priorities that have sufficient resources to support them.

Table 1

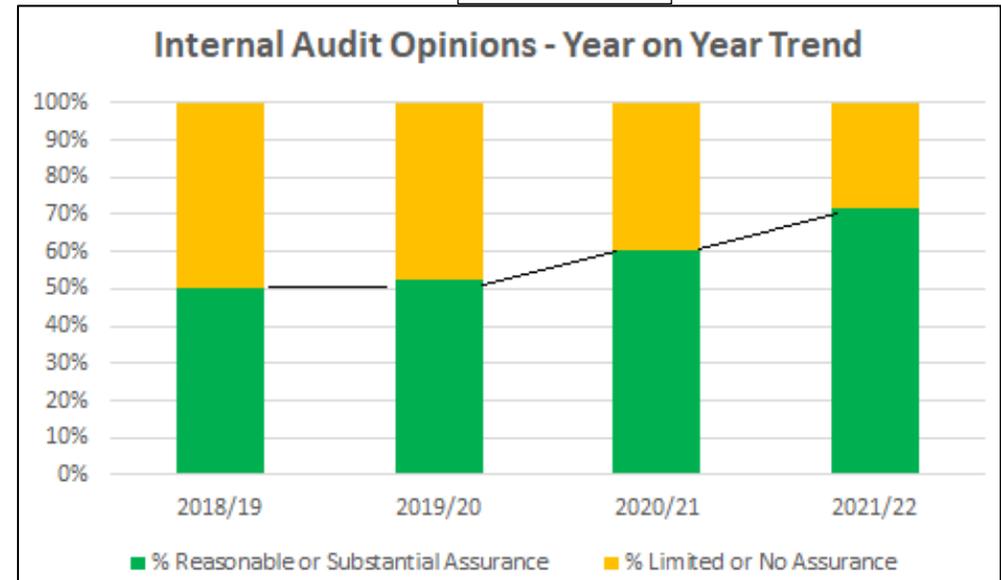
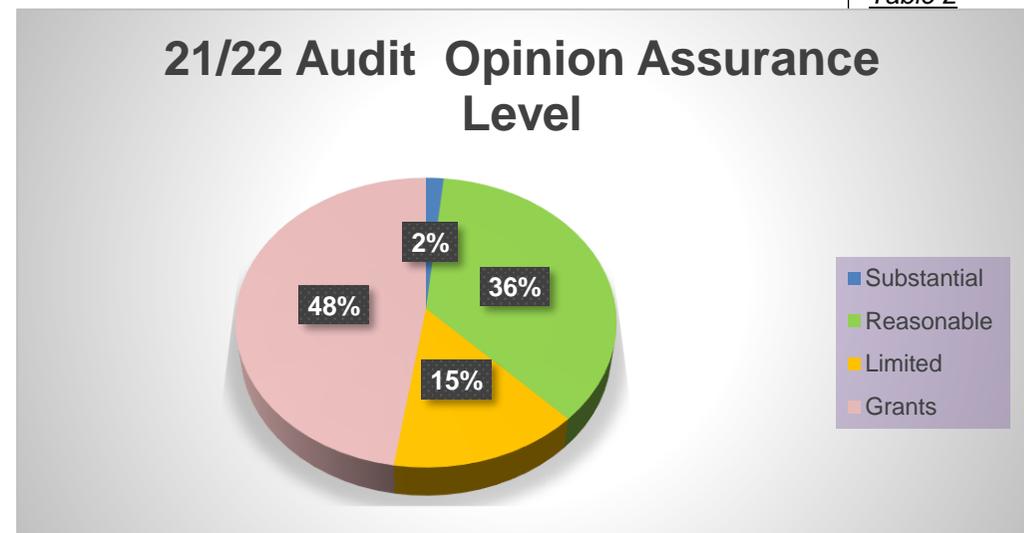


Table 2



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 eight 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 the areas identified as having assurance gaps were considered as part of the 2022/22 annual planning cycle.
- **Assurance Framework** - The Council's Assurance Framework (Framework) includes different sources of assurance and related key elements / control measures which enable the Council to monitor its internal control, governance and risk management arrangements and produce the information which supports the preparation of the Annual Governance Statement. The Framework also enables regular financial, performance and compliance reporting to CLB and Members thereby creating a valuable body of evidence of senior management and Member scrutiny.
- **Management assurance** – As part of the Annual Governance Statement process, Heads of Service, Service Directors, Executive Directors and Statutory Officers are required to complete self-assessments on the effectiveness of controls in the areas of responsibility. In 2021/22, most were generally assessed as operating well and fewer gaps were identified and this marked an improvement from the previous years. **Appendix C** provides a summary of these first line management assurances.
- **External Inspection Reports** – Annually management present to the Audit Committee a report on the review of external inspections of Council services. The purpose of this report is to inform Members about the external inspection and peer review activity that has taken place during the year and sets out any key findings and recommendations. Such report was presented to the Audit Committee on 8 March 2022 covering 18 inspections and peer reviews. Any recommendations and feedback from external inspections and peer reviews are reported back to Executive Directors and if necessary, the Corporate Leadership Board.
- **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 Internal Audit adopted hybrid working practices in delivering its mandate recognising the significant impact of Covid on service delivery and provision. As reported to the Audit Committee during the year the Covid19 pandemic continued to affect the timely completion of audits although that started to improve towards the later parts of the year. In addition, there was increased pressure on audit clients through budget pressures, staffing issues and other corporate priorities. Internal Audit faced some resourcing challenges due to some long sickness absences

and other unplanned absences. The resultant risk on the delivery of the approved plan was mitigated by additional support from KPMG, our internal audit strategic partner.

3. Areas Requiring Further Improvement:

- 3.1 **Appendix A** provides details of all work completed by Internal Audit and the conclusions arising from that 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 recognises that management continued to face significant challenges in balancing business as usual and Covid recovery. The uncertainty in the operating environment and emerging risks meant that slower progress was made in some areas that were earmarked for improvement. Despite this, updates presented to CLB on areas identified in 2020/21 showed that satisfactory progress were being made in some key areas. In 2021/22, the Chief Internal Auditor identified the following areas as requiring improvement:
- Information Technology including IT Resilience
 - Compliance with Procurement Rules
 - Risk Management
 - Housing Management systems and processes
 - Management of Conflicts of Interest
 - Adult Social Care Direct Payments
 - Special Educational Needs and Disability (SEND)
 - Delivery of financial savings
- 3.2 Issues identified during the audits were discussed and agreed with relevant management. Management is putting 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. 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 continue to receive update reports throughout the year in terms of progress being made in delivering essential improvements required in these areas.
- 3.3 As management put in place arrangements for dealing with issues identified in 2021/22 as well as emerging global risks, ongoing improvement work in some key areas such as contract management, information governance, capital programme delivery, risk management and performance management should continue to be prioritised.

Counter Fraud

- 3.4 Bristol City Council takes a proactive and zero tolerance approach to fraud and has a strong fraud policy. The Counter Fraud and Investigation Team undertakes investigative work in a variety of fraud risk areas including social housing tenancies, council tax, direct payments and internal

investigations. It also undertakes a number of proactive exercises including the use of data matching and analysis to prevent and detect fraud and identify savings to the Council.

- 3.5 Like all other Council services, the Counter Fraud team were also impacted by Covid19. Whilst visits and interviews have been resumed, there are still significant delays with the courts. This has resulted in cases taking longer to finalise impacting on the overall outcomes delivered during the year.
- 3.6 During the year, the Council implemented the Cabinet Office National Fraud Initiative (NFI) Fraud Hub which is modelled on the secure National Fraud Initiative (NFI) platform. The NFI hub allows participating organisations to screen existing customer records against a number of data sets including data from various departments within one organisation, data from all members of the hub and the core NFI datasets such as payroll, pensions, housing (current tenants) and right to buy, housing waiting lists, housing benefits (provided by the DWP), council tax reduction scheme, council tax, electoral register etc. The hub is a key development in the Council's fight against fraud and corruption.
- 3.7 Full details of the work of the Counter Fraud and Investigations team can be found in the Counter Fraud Annual Report 2021/22. At a glance the key outcomes from this work included:
- Undertaking pre and post fraud checking for Covid-19 government support grants
 - Delivering 31 positive housing outcomes and 6 positive other outcomes from continued work on tenancy fraud
 - Identifying recoverable savings of £527K through various fraud work.
- 3.8 The Team also have the responsibility for receiving and co-ordinating responses to Whistleblowing referrals. A Whistleblowing update report was presented to the Audit Committee in March 2022 and details of outcomes from the whistleblowing investigations completed in the year are provided in the Fraud Annual Report.

School Financial Governance and Management

- 3.9 Unlike in the previous year where it was very difficult to conduct any meaningful audits in schools due to Covid-19, in 2021/22 a total of 12 maintained schools were audited and work is ongoing to finalise the reports with schools management. The outcomes from these important reviews are discussed with the relevant senior management at schools where improvement actions are agreed. The significant risk faced by the majority of the schools audited was the declining financial health and this is being escalated through the appropriate governance channels. More schools' audits are scheduled for completion in 2022/23.

Follow Up of Agreed Management Actions

- 3.10 One of the key activities of Internal Audit is to follow up on agreed management actions. The Council uses a Pentana Audit module to monitor and report the implementation of these actions. In this process management are responsible for implementing the agreed actions while Internal Audit is responsible for regularly reviewing the entries by management and seeking additional evidence if required before closing the actions as

completed. 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. Throughout the year the performance on the implementation of the agreed actions was reported to both CLB and the Audit Committee. As of 31 March 2022, 92.4% of the 281 actions due for implementation were either fully or partially implemented. This is against a target of 90% and the good performance reflects the impact of increased oversight by CLB and regular reporting at all management levels.

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 2021/22.

Grant Certification:

- 4.3 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. 29 such grant claims were certified during 2021/22 with a value more than £25 million. All grants were certified as complying with grant conditions. Details are provided in Appendix A.

Consultancy and Advice:

- 4.4 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.

External Work

- 4.5 As part of our service, we provide assurance services to external clients that include Bristol City Council Group of companies and academy schools. This work is chargeable and brings income to help us deliver a balanced budget.

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

	2021/22 Actual	2020/21 Actual	Target
*% of planned work completed/in progress	88%	94%	90%
High/Medium agreed management actions Implemented	92.4%	92%	90%
No. of Properties (or other positive housing outcomes) recovered by tenancy fraud work.	31	19	35
% of QAQs with a score of 4 or more (Customer Satisfaction)	96%	80%	75%
Delivery of Audit Opinion to management and Audit Committee in time to inform the AGS	Yes	Yes	-
Annual Governance Statement delivered within statutory deadlines	Yes	Yes	-

* The assurance plan was regularly reviewed by the Audit Committee during the year to consider emerging risks, 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 results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report. The QAIP which was considered and approved by the Audit Committee in November 2021 included the update on the implementation of recommendations arising from the previous Peer Review of the Internal Audit Service as well as new actions that had been identified in the previous year and further identified new improvement actions needed to enhance the delivery of internal audit services.
- 4.8 In approving the QAIP, the Audit Committee also approved the Internal Audit Strategy that outlined how internal audit activities will be undertaken within the Council and defined the key principles and approach to be used. Some of the key principles are:
- ✓ Continuing to support the Council's overall Covid19 recovery response ensuring that operating structures are resilient, sustainable and support good decision-making, risk management and communication.

- ✓ 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.
- ✓ Continuing to use agile auditing methodologies to provide more rapid responses to changing business assurance needs.
- ✓ Building resilience within our Service by developing and implementing succession plans at all professional levels underpinned by the principle of growing our own through the apprenticeship and graduate trainee route.

Organisational independence

- 4.9 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 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 every two years. The next review is due in 2022/23.
- 4.10 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.

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 The internal audit activity is delivered by an in-house team supported by KPMG as our strategic partner. The strategic partnership is important because it enables the Council to access specialist audit expertise and build resilience and capacity in cases of delivering reach to support peaks in the internal audit activity.
- 6.2 Internal Audit faced some resourcing challenges during the year slightly impacting on the timely delivery of some audit work particularly schools. However, the resultant risk to the delivery of the approved plan was mitigated by additional support from KPMG and successful recruitment of an Interim Group Auditor at the beginning of February.
- 6.3 In addressing the resourcing and succession challenges we are facing we have started the process of recruiting two Level 7 Internal Audit Professional Apprentices. This approach is consistent with our audit strategy that was approved by the Audit Committee in November 2021.
- 6.4 The KPMG contract is funded by savings from the vacancies we currently hold.

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.