



# BRISTOL INTERNAL AUDIT

## Internal Audit Half Year Report

April 2022 to October 2022



# 1. Introduction

- 1.1 The role of the Internal Audit function is to provide Members and Management with independent assurance that the control, risk and governance framework in place within the Council is effective and supports the Council in the achievement of its objectives. The 2022/23 Internal Audit Plan was approved by the Audit Committee in March 2022 and provides a programme of work designed to enable provision of an evidence-based audit opinion on the risk management, governance and control environment to the Corporate Leadership Board and Audit Committee and in support of the Annual Governance Statement (AGS). As previously agreed with the Audit Committee risks to the Council continue to evolve at pace so Internal Audit maintain a rolling plan which is formally reviewed quarterly.
- 1.2 Upon completion of an audit, an assurance opinion is given on the effectiveness of the controls in place. The results of the entire programme of work are used to inform the Chief Internal Auditor's opinion in the Annual Internal Audit Report on the effectiveness of internal control, risk and governance arrangements within the Council.
- 1.3 This Half Year Report provides members of the Audit Committee and management with an update on the progress in delivering the 2022/23 Audit Plan. The update covers the period of 1<sup>st</sup> April 2022 to 31<sup>st</sup> October 2022, building on the information which was provided to the Committee at its meetings in July and September 2022 enabling the Committee to track the progress on planned internal audit activities throughout the year.
- 1.4 The report also provides an update on any proposed changes to the Audit Plan as well as updates in the following areas:
  - Outcomes from internal audit activities including summaries of completed audit reviews where the level of assurance was concluded as 'Limited' since the last meeting;
  - Internal Audit resourcing as required by the Public Sector Internal Audit Standards (PSIAS);
  - Grant certification;
  - Implementation of agreed audit recommendations and agreed management actions.
- 1.5 The summary of internal audit activities completed or in progress during the review period is provided at Appendix 1 to this report.
- 1.6 The Internal Audit function also provides a Counter Fraud Service to the Council to enhance arrangements for the prevention, detection and investigation of fraud. The activities of the Counter Fraud Service are the subject of a separate half year report also being considered at this meeting.

## 2. Key Messages

- Audit work brought forward from 2021/22 has been a key focus in the earlier parts of the year but is now fully complete.
- Work is in progress regarding the audit plan for 2022/23 with 37% of the planned work complete or at draft report stage against a target of 45% at the end of Quarter 2. However, it is anticipated that the planned target for year-end can be met.
- Grant certifications have been another key area of work for the team in the first half of the year. The number of certifications required is increasing and this work will continue into the second half of the year.
- The Internal Audit Plan has been reviewed and amendments proposed to ensure the most effective use of audit resource. The Committee is asked to approve these amendments.
- Progress continues to be good regarding implementation of improvement actions agreed following audit work.
- The team has suffered a level of sickness that has meant delivery of the audit plan has not progressed as quickly as hoped particularly in the first quarter of the year. However, the use of strategic partnering has helped mitigate this.
- The team welcomes two newly appointed Level 7 Internal Audit Professional Apprentices. This means the team is now supporting development of 3 audit professionals to help ensure resilience and capacity of the team moving forward.

## 3. Audit Plan - Completion, Amendment and Key Messages

### Annual Risk Based Assurance Plan Status:

- 3.1 The audit work brought forward from 2021/22 is now fully complete. Delays in completing these reviews were due to some audits taking longer than originally anticipated, staff sickness levels in the Internal Audit Team, increasing grant certifications and competing priorities for managers across the Council and their ability to prioritise engagement with audit. The delay has also slightly impacted on the current delivery position of the 2022/23 Audit Plan.
- 3.2 The work on the 2022/23 Audit Plan is now progressing although is behind schedule. The planned audit activities to completion and draft report stage are at 37%, against a target of 45% at the end of Quarter 2. Resourcing challenges have now been addressed by the recent recruitment of two Level 7 Apprentices and agreement of more support with the audit strategic partner. In addition, the team is increasing its use of analytics in the audit process to increase assurances without additional resource.
- 3.3 As managers try to deal with challenges facing the organisation, the speed at which internal audits are completed has slowed down and it is taking longer to finalise reports. This is being addressed by increased and regular engagement with senior management ensuring that delays are escalated timely.
- 3.4 Having reviewed the approved plan against the available resources we are confident that the agreed target will be met by end of the financial year.

- 3.5 The summary of the planned work either completed or in progress for the period 1<sup>st</sup> April to the 31<sup>st</sup> October 2022 is provided at Appendix 1 together with the level of assurance concluded from each review.

**Key Messages to Date from Audit and Assurance Work:**

- 3.6 As reflected in Appendix 1, 83% of the 48 audits completed and grants certified in the period under review had a **reasonable** or better assurance opinion. Three audits excluding schools had a **limited assurance** opinion and 1 grant was not able to be certified at the time. Details are below:

**ICT and Cyber Security**

- 3.7 Consistent with the Audit Committee reporting protocol, a summary report of an audit that concluded 'Limited Assurance' is provided at Appendix 2. The summary relates to the Cloud Review. As this report contains information relating to the financial or business affairs of any particular person (including the authority holding that information), it will be considered in an exempt session under Category 3 in the Access to Information Procedure Rules.
- 3.8 In addition, follow up of actions agreed on conclusion of previous reviews in relation to IT Resilience and Cyber security have been completed. Although progress has been made to implement many of the agreed actions in these areas, most are not yet fully implemented meaning the risks identified remain.
- 3.9 Rather than continue to complete new audits in respect of the Council's IT arrangements, it is felt more useful at this time to undertake a root cause analysis in this area. This work will support management in understanding the fundamental cause of weaknesses in current arrangements for sustainable improvement. In addition, this exercise and the IT risk assessment will inform future audit activities in the area.
- 3.10 In September 2022, members of the Committee received a detailed briefing from officers in relation to IT and Cyber risks and how those are being mitigated. The Director: Policy, Strategy and Digital will bring a further report to the Committee in January 2023 which details the planned future approach to IT management, governance and delivery.

**Schools Audit Programme 2021/22:**

- 3.11 Internal Audit undertook reviews of financial management and governance at 10 schools focussing on budget setting and monitoring. For six schools, Internal Audit concluded reasonable assurance and for four schools limited assurance.
- 3.12 The audit referenced the revised financial regulations for schools implemented by the Council from 1 April 2022. Internal Audit found varying awareness of these with some schools being slow to respond to changes in requirements. Due to the pandemic a number of schools had issues with governors meeting as frequently as required. Governor finance training had also lapsed as courses had not been available. Overall financial health was declining and schools were facing rising costs particularly for staffing and energy. Some schools had already addressed this in part through investment in premises and staff reductions. Other schools faced similar difficult decisions to avoid or reduce deficits. In the longer-term smaller schools were looking to collaborate more with neighbouring or similar schools to share costs.

- 3.13 Payroll and recruitment procedures and income collection and banking procedures were generally well managed. School arrangements for the audit of ‘unofficial school funds’ had lapsed during the pandemic but most schools were now addressing this.
- 3.14 Scoping of assurance work across schools in relation to 2022/23 has already begun and work will begin during quarter 3 to deliver this. A risk assessment using information about each school including date and opinion of last audit, OFTED reviews and financial position has been used to select a sample of schools for review in 2022/23. Areas of focus for these reviews is currently being developed with a view to commence work shortly.

### **Audit Plan Review**

- 3.15 By necessity, the Audit Plan must be flexible to ensure it remains relevant to risks facing the Council throughout the year which is consistent with the rolling plan methodology adopted. Consequently, the Audit Plan has been further reviewed to take into account further changes in the Council’s risk environment and discussions with management. Details of the proposed changes together with the reasons for the proposals are provided in Table 1 below.

**Table 1 – Proposed Amendments to the 2022/23 Audit Plan**

No.	Proposed Plan Amendment	Audit Assignment	Rationale
1	Removal	Children’s Safeguarding	Reasonable assurance opinion from 2021/22 completed in year
2	Removal	SEND	Ofsted review in year.
3	Removal	IT Infrastructure	IT Root Cause Analysis followed by a new IT risk assessment
4	Removal	Legacy Systems	Risk acknowledged and IT Root Cause Analysis followed by a new IT risk assessment
5	Change	ISMS (information Security Management System)	Implementation still ongoing and embedded assurance will continue regarding policy development.
6	Addition	Q4 Capital Spend	Agreed as part of management response to External Audit findings.
7	Addition	IT Root Cause Analysis.	Given the number of limited assurance audits in relation to IT Audit work completed, root cause analysis needed to support current improvement agenda.
8	Addition	Homelessness	Assurance requested regarding the extent to which criteria are followed in assessment of need for temporary accommodation.

- 3.16 The Committee is requested to agree to the proposals.

## **4. Grant and Other Certifications**

- 4.1 To date, the team has audited and certified 28 grant claims to the value of approximately £38.5m - see Appendix A. This represents a year-on-year increase in this area of activity as more grants are required to be certified by the team. Further grants require certification into

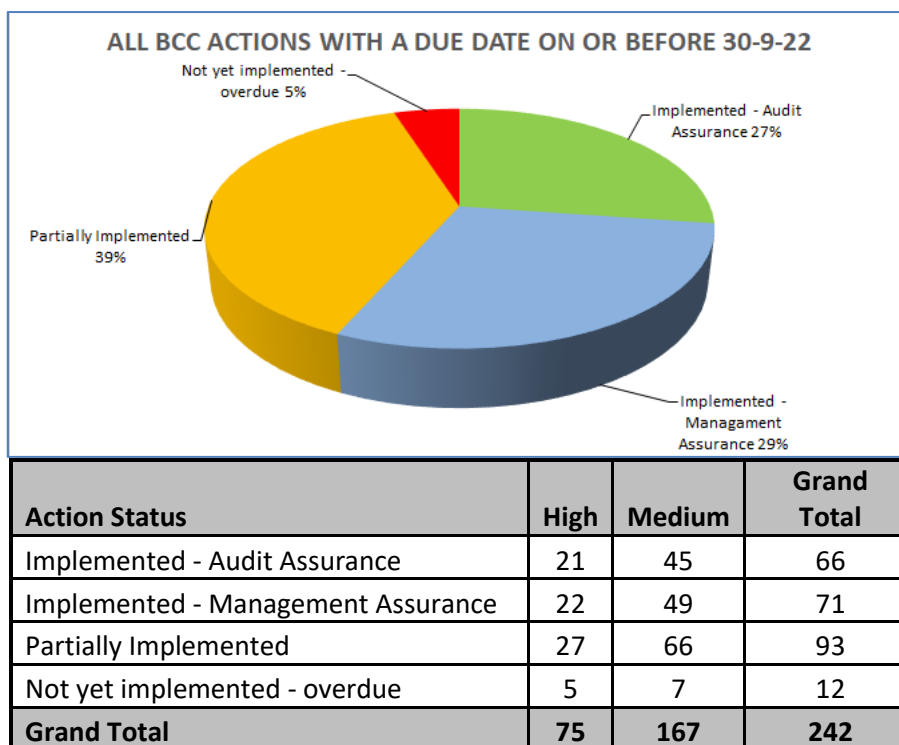
quarter 3. Concerns have been raised with CLB regarding the late notification of certification requirements. Senior management are currently reviewing how this will be addressed to enable the audit team to plan for delivery of timely certifications as required.

- 4.2 There were no significant grant compliance issues identified although in one case we have had to defer grant certification for a small grant until such times as agreed outputs were delivered.

## 5. Implementation of Agreed Management Actions

- 5.1 Whilst the ultimate responsibility for the implementation of agreed management actions lies with management, it is incumbent on Internal Audit to facilitate the improvements by ensuring maximum engagement with the client during the audit process and supporting the resolution of matters arising where appropriate.
- 5.2 It is pleasing to note the good progress in implementing agreed management actions. The chart at table 2 demonstrates 95% of actions with a due date on or before 30<sup>th</sup> September 2022 have either been implemented or partially implemented. This is against a target of 93%.
- 5.3 For high and medium priority actions, internal audit independently verifies implementation of actions once management has advised they are implemented. These are marked in green in Table 2 below. The remaining segments are management updates on the position and still require audit verification.

Table 2



## 6. Priorities Going Forward

- 5.1 Delivery of the audit plan remains the main priority for the team in the second half of the year. Continued application of our engagement model will be vital to ensure management support to

do so as the organisation tackles the significant challenges and inevitable changes the response to these will bring. Regular and targeted engagement with management and a flexible and responsive approach is planned to ensure audit matters are given the priority required.

- 5.2 The team are preparing for an External Assessment required by the Public Sector Internal Audit Standards. It is anticipated the self-assessment of compliance with the standards will be finalised and submitted to the reviewers (Nottingham City Council) in December 2022. The review itself will take place in January and February 2023 in line with terms of reference previously agreed by the Audit Committee. The resulting report is due to be presented to the Committee in March 2023.
- 5.3 The Committee will recall that the team have taken responsibility for whistle-blowing arrangements on behalf of the Council. In doing so, the team are unable to form an independent opinion on the effectiveness of arrangements in this important area of governance. Work has commenced to commission an independent audit in this area in quarter four, the result of which will be provided to the Audit Committee.
- 5.4 Work on use of data analytics and continuous audit has been started in line with our audit strategy and priority is being given to use of data to drive audit assurances. In addition, development of continuous audit techniques is a key area for development.
- 5.5 Working with a strategic partner has brought many benefits to the team in terms of capacity and skills. Further benefit from these arrangements can be achieved relating to skills transfer in development of the inhouse team. Arrangements are currently being developed with the strategic partner to maximise benefit in this respect.

## **6. Context and Compliance**

- 6.1 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.
- 6.2 In undertaking audit engagements the team complies with the Public Sector Internal Audit Standards and CIPFA's Local Government Application Note.