



BRISTOL INTERNAL AUDIT

INTERNAL AUDIT: ANNUAL REPORT 2022/23

Date: 30 May 2023

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Chief Internal Auditor



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.

The Chief Internal Auditor's opinion is overall, **Reasonable Assurance** can be provided that in 2022/23, the systems of internal control, governance and risk management designed to meet the Council's objectives were adequate and operating effectively. This opinion means that whilst there are generally sound risk management, internal control and governance processes in place, there are some weaknesses which may put organisational objectives at risk.

- In forming this view, the Chief Internal Auditor has considered assurances obtained through:
 - ✓ internal audit outcomes
 - ✓ Annual Risk Management Review
 - ✓ Council's assurance framework
 - ✓ Management assurance through the Annual Governance Statement process
 - ✓ External inspections
 - ✓ Ongoing engagement with the business
 - ✓ Monitoring and reporting the implementation of agreed management actions
- In noting this opinion, it should be acknowledged that Internal Audit has not reviewed all risks and assurances and cannot provide absolute assurance on the internal control environment. Senior Management are ultimately responsible for ensuring an effective system of internal control.
- During the year several areas were identified as requiring improvement. It is acknowledged that due to the size and complexity of the organisation there will always be areas in need of improving and in some instances risks will crystallise. However, given the importance of these areas in the effective governance and performance of the Council, these areas should be prioritised as part of the Council's overall improvement plan. Progress in some of the key areas should be reported to the Corporate Leadership Board and Audit Committee as appropriate. In addition, the ongoing work relating to the monitoring and reporting of the progress in the implementation of agreed management actions should be sustained and embedded as part of regular performance management.

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**. Other sources of assurance considered are:

- **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 2022/23, most were generally assessed as operating well and some gaps were identified. The overall position was consistent with that reported in the previous year. **Appendix B** 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. Such report was presented to the Audit Committee on 6 March 2023 covering 9 inspections and peer reviews. This report provided a high-level overview of external inspection activity of council services since February 2022. It set out key inspection findings along with arrangements for implementing any recommendations arising from them. The report also provided a summary of the outcomes of any peer reviews relating to council services which may have taken place since February 2022. 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. A new audit client engagement model was introduced in November 2022.

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

continued uncertainty in the operating environment and emerging risks meant that slower progress was made in some areas that were earmarked for improvement. In 2022/23, the Chief Internal Auditor identified the following areas as requiring improvement:

- Delivery of planned savings
- Maintained Nursery Schools Deficits
- Compliance with Procurement Rules
- Contract management
- Information Technology due to limited assurance opinions and limited progress in implementing agreed management actions
- Core Systems Access Controls
- Adult Social Care Transformation Programme
- Adult Social Care Budget Management
- Corporate Property Disposals
- Grant management
- Health & Safety
- Business continuity

- 3.2 Issues identified during the audits were discussed and agreed with relevant management. Management are 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.
- 3.3 While it is acknowledged that some improvements and benefits could take time to be realised, there is a concern that some of these areas were highlighted in last year's report. Given the importance and serious implications of risks associated with the areas identified there is need to ensure that the improvement plans are prioritised and sufficiently resourced to deliver the improvements expected in 2023/24. 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. These areas will be subject to audit in the coming year to assess the appropriateness and effectiveness of the new arrangements.
- 3.4 As management put in place arrangements for dealing with issues identified in 2022/23 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

- 3.5 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.

3.6 Full details of the work of the Counter Fraud and Investigations team can be found in the Counter Fraud Annual Report 2022/23. At a glance the key outcomes from this work included:

- Delivering 36 positive housing outcomes through tenancy fraud work
- Identifying recoverable overpayments across all fraud areas totalling £493K
- Raising awareness of fraud both internally and externally during International Fraud Awareness week.

3.7 The Chief Internal Auditor also has the responsibility for receiving and co-ordinating responses to Whistleblowing referrals. Consistent with best practice an independent review on the process for referring, assessing, investigating and managing potential whistle-blowing allegations was undertaken by the Devon Audit Partnership in February 2023 to mitigate against the risk of self-review. A **substantial assurance** opinion was given which is consistent with the opinion given by the South West Audit Partnership in March 2021.

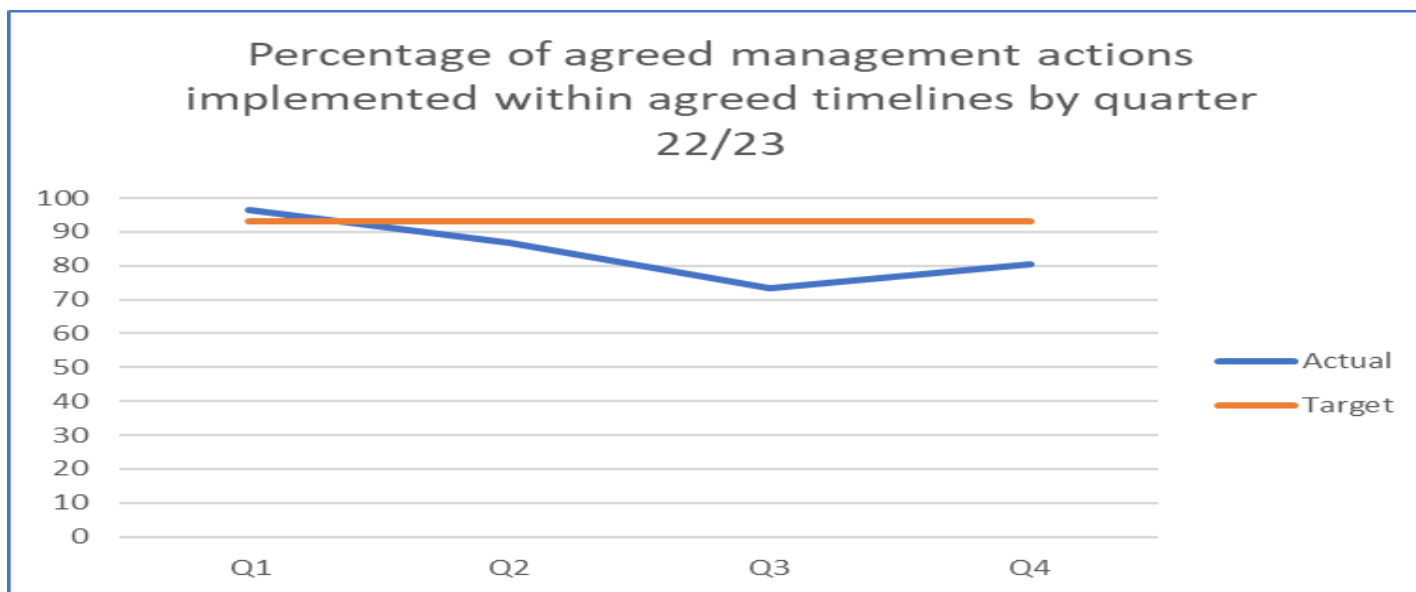
School Financial Governance and Management

3.8 Following a detailed risk assessment 10 maintained schools were selected for audit in 2022/23. Of the 10 schools audited, five had 'limited assurance', three had 'reasonable assurance' and two had 'substantial assurance' opinion. The main reason for 'limited assurance' conclusion is current and forecast poor financial health at these schools. All reports have been issued and schools have completed an action plan to address the issues raised by Internal Audit.

Follow Up of Agreed Management Actions

3.8 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.

3.9 In 2022/23 the target was '93% of agreed management actions should be fully or partially implemented by the due date'. As at 31 March 2023 the overall achievement for the whole Council was 81% which was a deterioration from last year where the performance ended at 94%. The Adults and Communities Directorate had the worst results at 61%. As reflected by the graph below the target of 93% was achieved in the first two quarters. The decline in the last two quarters could be attributed to too many corporate priorities during the time particularly the demands around service and savings planning. However there is need to ensure that management maximise the use of the audit management software to monitor implementation of agreed actions. In addition, Internal Audit will continue to support management in fully embedding the monitoring process into regular performance management arrangements. This area is a top priority for the Corporate Leadership Team in 2023/24.



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 2022/23.

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. 41 such grant claims were certified during 2022/23 with a value more than £48.6 million. This shows that a significant and increasing amount of time is spent auditing in this area. All grants were certified as complying with grant conditions. However, there are concerns in the management of grants particularly around

ensuring that the compliance reviews are adequately prepared for and giving the audit team enough notice. Details of the grants signed off during the year 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 1 below:

Table 1

	2022/23 Actual	2021/22 Actual	Target
*% of planned work completed	88%	88%	90%
High/Medium agreed management actions Implemented	81%	92.4%	90%
No. of Properties (or other positive housing outcomes) recovered by tenancy fraud work.	36	31	40
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 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.

- 4.8 The QAIP which was considered and approved by the Audit Committee in November 2022 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. 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.
- 4.9 Consistent with the PSIAS requirement and the QAIP, the Internal Audit Service was externally reviewed against the PSIAS in line with professional requirements by Nottingham City Council following the approach agreed with the Audit Committee in July 2022. The assessment concluded that Bristol City Council's Internal Audit Service conforms with the requirements of the Standards. This report was in considered in full by the Audit Committee in March 2023.

Organisational independence

- 4.10 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. As stated in section 3.8 above such a review was undertaken in February 2023.
- 4.11 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 can confirm 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. The KPMG contract is funded by savings from the vacancies we currently hold.
- 6.2 In the earlier parts of the year, Internal Audit faced some resourcing challenges caused by long term sickness but this was mitigated by additional support from KPMG.
- 6.3 In addressing the resourcing and succession challenges, two Level 7 Internal Audit Professional Apprentices have been recruited and started in September 2022. This approach is consistent with our audit strategy that was approved by the Audit Committee in November 2022.
- 6.4 Consistent with the Audit Strategy we continue to fully support colleagues in their personal development activities. In addition to the four colleagues undergoing professional study, a level 4 fraud apprentice is also being recruited.

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.

7.4 Internal Audit complies with the PSIAS.