



# BRISTOL INTERNAL AUDIT

Information Classification: Level 1 Due care

**INTERNAL AUDIT:  
HALF – YEAR UPDATE 2016/17**  
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## 1. Purpose of this Half-Year Update Report

- 1.1 This Half-Year Update Report provides a summary of the work completed by Internal Audit (IA) in the period of 1<sup>st</sup> April – 30<sup>th</sup> September 2016. Its purpose is to:
- ❖ Provide an overview of the status of the organisation’s Risk, Control and Governance framework, based on the work of Internal Audit to date, and the level of assurance that can be derived from that work
  - ❖ 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 in this first six months of the financial year
- ❖ Highlight any areas which may impede the work of Internal Audit during the residual part of the year

## 2. Control, Risk and Governance Framework:

2.1 Internal Audit formulate a annual risk-based audit plan in order to identify the high risk areas which need to be reviewed in order to provide management and the Audit Committee with the appropriate assurance on the Control, Risk and Governance framework within the Council, and to support the Chief Internal Auditor's annual opinion on this framework. As part of that process, IA monitors the outcomes from each of the reviews and considers what the collective output is telling us about the Framework. The graphs below provide senior management and the Audit Committee with an illustration of how the Council is doing in terms of level of assurance and risk for 2016/17, together with previous year's performance for reference, figures (2) and (3).

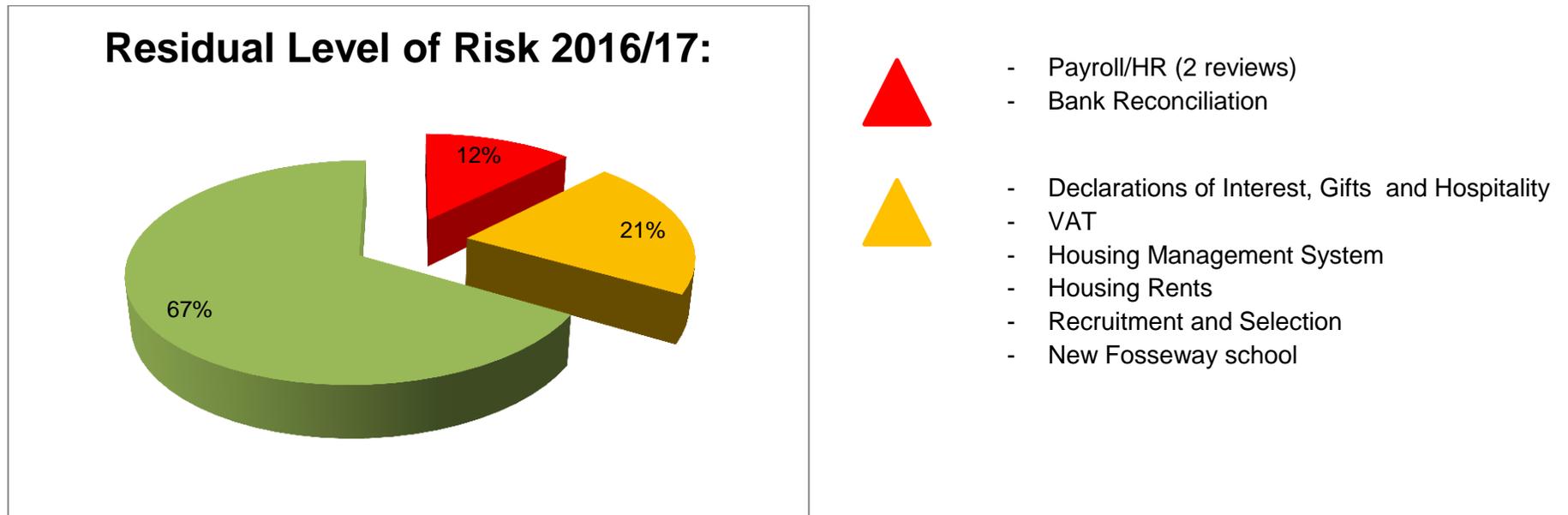


Figure (1) Residual Level of Risk for first 6 months of 2016/17

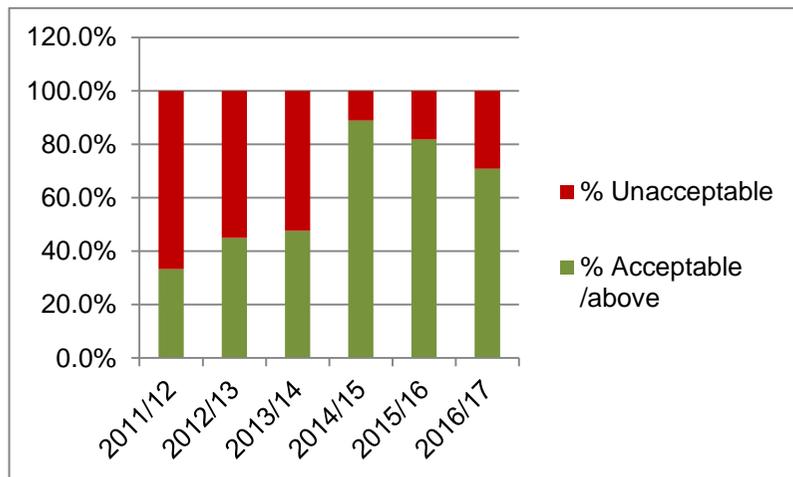


Figure (2) Level of Assurance of the last 5 years + to date in year 6

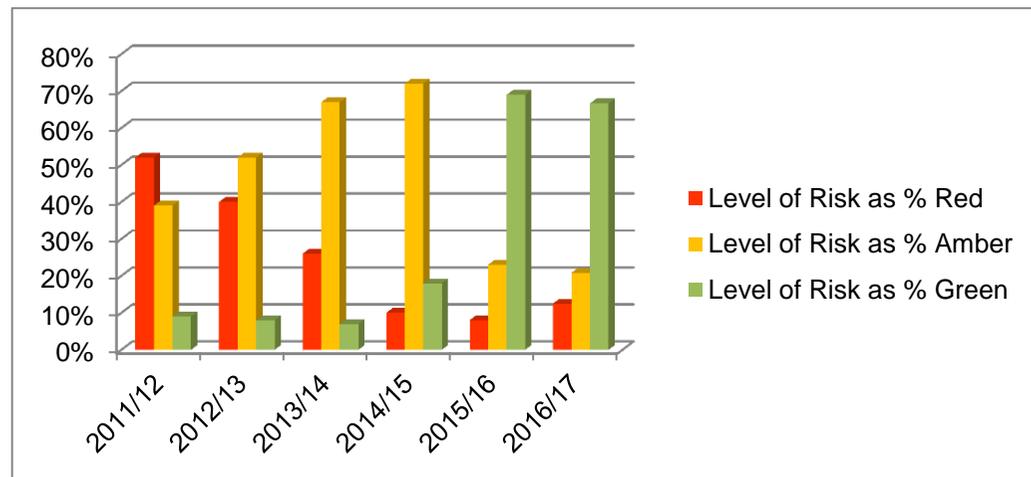


Figure (3) Level of Residual Risk over the last 5 years + to date in year 6

- 2.2 As illustrated by figure (1) the proportion of audit reviews which have a residual level of risk in the green zone of the CRR risk matrix, stands at 67% for the first half of the year. The trend, as illustrated by figure (2) is an increasing amount of unacceptable levels of assurance and an increase in the level of residual risk from the previous two years, however the increase is slight in comparison to the status of the period 2011 – 2014.

### 3. SUMMARY OF OUTCOMES – Planned Assurance Work:

- 3.1 To date, 59% of assignments included in the annual audit plan are either completed or in progress. Details, together with the level of assurance and residual risk rating, are provided in Appendix A attached to this report. Key messages coming from our work to date are:

#### Financial Control and Governance:

- 3.2 As reported in the Annual Governance Statement Action Plan update at the September 2016 Committee meeting, concerns remain with regards to the progress of improvement projects within Finance, continued vacancies and reliance on interim staff and the issues regarding the implementation of the HR/Payroll system continue. Additionally, the continued unavailability of updated Financial Regulations remains an issue as finance staff prioritises other matters including addressing the significant budget pressures for 2016/17.
- 3.3 Additionally, Internal Audit have followed up on the previous year's Bank Reconciliation audit, and the retest found that there were still significant weakness in this area due to a lack of ownership of the whole process. However, as per the verbal update provided by the Service

Director: Finance at the September meeting, responsibility for the function has now been allocated and improvements made to the reconciliation process. Internal Audit will be completing a further follow-up in this area in quarter 3.

3.4 Financial control and governance will be challenging during the next six months and we will be paying this area particular attention in the following key financial systems reviews.

- Financial Systems Interfaces
- Accounts payable - request for payments (payments not requiring an order)
- Accounts Receivable
- Budgetary Control and Forecasting

3.5 **Additions & Deletions to the Audit Assurance Plan:**

Due to demands put on the Service to undertake significant grant certification work and to undertake additional ad-hoc reviews there has been a number of changes to the Plan since that agreed in April, the key changes are provided at Appendix B, but in summary the areas affected are:

- Commissioning
- Corporate Asset Management
- LEP and City Deal

The items in Appendix B will be recorded on our 'Reserve' plan to be considered in the event that we identify any space resources.

#### **School's Governance:**

3.6 The resources dedicated to reviewing schools financial governance were reduced in this year's plan due to the overall improvements seen in this area in 2015/16. The small sample of schools audited during this period has again indicated positive results as illustrated in Appendix A. Where 'partial control' opinions have been given there has been evidence of processes already in place to address the weaknesses. Further sampling of schools is planned for the remainder of the year in line with the agreed plan.

#### **Grant Certification:**

3.7 Our grant certification work continues to grow and has already incurred more days than the Service originally had planned. A number of grants have already being approved and certified in this first six months of the year. In each case the expenditure was found to be within the grant requirements and as such certification was possible, thereby ensuring the Council continues to receive grant monies.

## 4. Summary of Outcomes - Other Activity:

### Risk Management and Annual Governance Review/Statement:

- 4.1 Internal Audit has continued efforts to facilitate the review of the Corporate Risk Register (CRR). The register has been reviewed and was scrutinised by the Audit Committee at its July 2016 meeting with a further update scheduled for the January 2017 meeting. The development of the new corporate strategy, currently out for consultation, is likely to reflect significant change in the Council's priorities and objectives and consequently the corporate risks associated with achieving those objectives.
- 4.2 Directorate Risk Registers (DRRs) have continued to be considered by the respective Scrutiny Commissions, with the Committee receiving two registers for information at this meeting. Further work will be needed on the DRRs in order to ensure they are aligned with the corporate plan and strategy going forward.
- 4.3 Work is also being done to explore how the Council could further embed risk management as a useful part of routine business practice. At present, whilst it is clear that officers are considering risk and how to manage them (eg the Council's highest risk – closing the budget gap – is receiving considerable attention), the CRR and DRR risk reporting is retrospective with risk registers only being updated when they are due to be reported to the Audit Committee (or Scrutiny in the case of Directorate Risk Registers) rather than being used in active management of the risks faced.
- 4.4 Internal Audit also leads the collation of the Annual Governance Statement (AGS) and monitoring of the supporting Action Plan. The Committee received the Final 2015/16 AGS at its September 2016 meeting together with an update of the Action Plan. The AGS has now been signed by all parties and posted alongside the Annual Statement of Accounts on the Council's Web Site. A further update of the AGS Action Plan is scheduled for the January 2017 committee meeting and in line with the proposed changes to reporting deadlines for the annual accounts a draft AGS will be presented to the Committee at its April 2017 meeting, in preparation for an early July sign-off. Work on collating the Statement is ongoing throughout the year and the Action Plan is maintain on a rolling basis, with the Statement being produced as a snapshot of the Governance environment at a given point in time.

### Fraud and Irregularity:

- 4.5 The Council 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. The work of the Investigations team includes:
- 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.

4.6 In all of the teams work, any gaps in control identified which could allow fraud to happen, are made known to management with recommendations to improve. The Committee receives an Annual Fraud and Error Update at its January meeting the next due in 2017, however, in the interim, a summary of our fraud work during this current period is provided below and in the attached Appendix A.

#### Tenancy Fraud

4.7 A new investigator has joined the team to cover maternity absence and brings with them a wealth of housing knowledge. The rate of property regains (16 to date) has subsequently increased putting us in a better position to meet our annual target of 40. Proactive work to prevent fraudulent right-to-buy applications continues. Three right-to-buy applications have either been cancelled or withdrawn as a result so far this year and the saving in falsely claimed discounts is reflected in table 1 below.

#### Direct Payments/Personal Budgets

4.8 We are working closely with Health and Social Care to deal with these difficult cases. We currently have one large case for which civil recovery has been invoked, and we are considering prosecution.

#### Local Tax /SPD review

4.9 Local Taxation undertook their biennial Single Person Discount (SPD) exercise. Cases where Council Tax reduction was in place and may also be affected by any change in their single status were referred to Internal Audit for investigation. The results to date are set out in the table below.

#### Work for other Enforcement Agencies

4.10 We have a good working relationship with the police, but have found their enquiries resource intensive; however, we have developed a protocol with them to ensure their enquiries are more focussed. We continue to deal with urgent enquiries as they come in but have limited the days we spend dealing with any other enquiry to minimise impact on our own workload. We continue to work with the DWP and are meeting the requirements of the Service Level Agreement we have with them apart from adjudications, which sometimes take longer than the targeted time.

**Table 1: Cases in progress or closed in 2016/17:**

Type of fraud case	No	In progress	Closed-	Outcome
Assets	1	1	0	
Blue Badge/Parking	3	3	0	
Cash/Cheque/Card	5	3	2	Closed reported to police
Employee	6	6	0	

Type of fraud case	No	In progress	Closed-	Outcome
Grant	1	0	1	Insufficient evidence
Social Care Benefit	13	10	2	Insufficient evidence
			1	Overpayment (value awaited)
Local Taxation	1	1	0	
Procurement	5	4	1	Insufficient evidence
SPD/Council Tax Reduction (proactive work)	354	76	60	CTax to write to and correct
			45	Errors corrected (no saving)
			1	HB Overpayment
			172	Closed no further action
Tenancy Fraud	272	133	16	Property regain
			12	Other positive outcome
			111	No further action
Council Tax Reduction	3	3	0	
Other	1	1	0	
<b>TOTAL</b>	<b>665</b>	<b>241</b>	<b>424</b>	

### Proactive Fraud Work

#### National Fraud Initiative

4.11 We have again submitted data for the biennial National Fraud Initiative. The output is anticipated January 17.

#### Blue Badge

4.12 We are working with Parking Enforcement to develop a strategy for dealing with Blue Badge fraud. This will include publicity, an amnesty, more intensive enforcement work and taking serious offenders through to prosecution.

#### Selling the Investigations Service

4.13 We are delivering tenancy fraud training for a registered social landlord and have been approached by two Local Authorities with regards to us providing training and investigation services to them. We are in discussions with them currently.

4.14 Other areas planned include fraud awareness training for schools, testing of controls over refunds in terms of Money Laundering.

4.15 Valuing the proactive and responsive fraud work undertaken by the team is difficult as knowing how long a fraud would have continued if it is not identified and stopped can only be estimated. Additionally, the identification of a fraud loss is no guarantee that a recovery will be made. However, the following figures give an indication of the costs to the Council of the fraud identified this year to date and identify where cost recoveries can or have occurred.

**Table 2: Potential Financial Savings:**

Type of Financial Saving	1st April - 30th September 2016						
	Council Tax Reduction	Ltax exemption	Direct Payment	Duplicate Payments	Other	HB/CTB (note 1)	Total
Overpayment	9652.04		197913.59			161673.26	318125.39
Chargebacks - debt reinstated for recovery (note 2)					110485.33		110485.33
Prosecutions costs						7000.00	7000.00
Administrative Penalties						2869.54	2869.54
Proceeds of Crime						67068.44	67068.44
Right to buy discounts stopped					104420.00		104420.00
<b>Total Payments recovered or recoverable</b>	<b>9652.04</b>	<b>0.00</b>	<b>197913.59</b>	<b>0.00</b>	<b>214905.33</b>	<b>238611.24</b>	<b>661082.20</b>
Weekly incorrect (WIB)			1186.46			797.57	1984.03
Source of Financial Saving	Council Tax Reduction	Ltax exemption	Direct Payment	Duplicate Payments	Other	HB/CTB	Total
National Fraud Initiative						25434.00	25434.00
Tenancy Fraud work					104420.00		104420.00
Other Proactive Fraud						51113.50	51113.50
Referral/Allegation			197913.59		110485.33		308398.92
Benefits case work	9652.04					162063.74	171715.78
	<b>9652.04</b>	<b>0.00</b>	<b>197913.59</b>	<b>0.00</b>	<b>214905.33</b>	<b>238611.24</b>	<b>661082.20</b>

## 5. Internal Audit Service Development, Performance and Effectiveness:

### Audit Service Development

- 5.1 The Service continues to comply with the requirements of the Public Sector Internal Audit Standards and this is constantly under review with each assignment and report. However, in line with requirements to have an independent review of compliance with the standards every five years, a peer review by another authority is planned for the latter end of 2016/17 in conjunction with the Core Cities group. This will ensure our operations continue to reflect best practice. Having completed the required external review on behalf of two other Local Authorities, we have benefited from observing best practice elsewhere which should position us well to ensure we are able to demonstrate compliance with the PSIAS.
- 5.2 The Service continues to pursue development to its full potential and to maximise efficiency and effectiveness. Some key developmental work has been completed or is in progress with this aim in mind including the following changes in approach:
- We have introduced a recommendations tracker in order to provide a robust platform from which we can ensure that recommendations are implemented. The Tracker is in the early stages at present, but initial feedback is positive.
  - The Audit Service successfully moved back to a base at City Hall and has continued to make full use of the agile and mobile working arrangements available.
  - We have upgraded our fraud management system which will facilitate a central record of all the fraud cases identified. We are also in the process of expanding the system to record all Whistle-blowing referrals received within the Council. This will provide consistent and more efficient processes in managing fraud and enable the provision of more meaningful statistics with regards to whistle-blowing incidences.
  - We are currently progressing work on our service offer to other Local Authorities and governmental offices, having already received some interest for our Fraud and Tenancy investigation services.
  - We continue to review our reporting methodology and the effectiveness of our reports, while at the same time ensuring the content complies with the Public Sector Internal Audit Standards (PSIAS), work in this area is ongoing and all feedback is welcomed.

### Internal Audit Service - Performance Against Targets:

- 5.3 We have undertaken a rationalisation of our performance targets in order to ensure they provide useful information, but at the same time are easily collected in order to minimise resources which can be utilised elsewhere. Progress against these targets is continually monitored throughout the year to ensure good value for money is provided by the Audit Service. Performance against these targets for the period of 1<sup>st</sup> April – 30<sup>th</sup> September 2016 is as follows:

<b>Value for Money Indicators</b>	<b>Q2 Actual</b>	<b>Q2 Target</b>	<b>2016/17 Annual Target</b>	<b>2015/16 Actual @ Q2</b>
<i>High/Medium recommendations Implemented or Escalated</i>	<i>Note (1)</i>	45%	90%	16%
<i>No. of Properties recovered by tenancy fraud work.</i>	16 <i>Note (2)</i>	12	40	24
<i>% of planned Statutory Assurance work completed/in progress/not required against plan</i>	59%	40%	90%	56%
<i>% of QAQs with a score of 4 or more (Customer Satisfaction)</i>	100%	90%	90%	82%

5.4 The Service has performed well in the following important areas:

- ❖ The level of statutory assurance work completed has exceeded that planned for this point in the year. This is as a result of bringing forward some statutory work into the earlier part of the year. Audits which are identified as ‘Statutory’ are the audit reviews which must be completed to enable us to ensure we are well placed at the end of the year to form our annual opinion on the Control, Risk and Governance environment within the Council.
- ❖ *(Note 2)* The number of properties we have regained as a result of the tenancy fraud work we do has exceeded the target for this period. The annual target was not stretched on last year’s due to our anticipated impact of maternity leave, however our temporary staff member has settled quickly into the role and as such we have still exceeded our target.
- ❖ Our Customer satisfaction scores are improved, having been down last year, however failure to respond on the part of our customers remains an issue, therefore we are looking for other ways to monitor our service and identify areas where improvements are required from the customers prospective.

5.5 There are some areas where we need to continue to focus our service improvement efforts in this next period and going forward:

- ❖ *(Note 1)* Confirming implementation of recommendations has continued to be an issue for us during the period; however as detailed in paragraph 5.2 above, we have now introduced a recommendation tracker and assigned a member of staff to take responsibility for chasing implementation. Additionally, we intend to arrange to regularly attend Directorate Leadership Team (DLT) meetings in order to

update the DLT members on progress and raise the outstanding recommendations, where appropriate. The tracker will also enable the provision of updates and statistics to senior management and the Audit Committee.

## 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 residual level of risk is considered Red or Amber on the Corporate Risk Matrix to be subject to follow up. This policy is currently under review in order to reflect our changed approach to recommendation follow-up.
- 6.2 Internal Audit have an open invitation to present to the SLT any matters which they feel are not being addresses appropriately and where they feel SLT can have an impact. Current matters drawn to SLT attention are:
- the progress required to improve financial governance and resilience as detailed in paragraph 3.2 above. SLT has been appraised of the lack of progress in this area via AGS update reports.
  - the need to ensure risk processes support management in delivering objectives on a day to day basis.

## 7. Resources:

- 7.1 Internal Audit resources have generally been in line with that planned for the first six months of the year, with the exception of the short-term resource reduction due to maternity leave. However, we have since lost a member of staff to Voluntary Severance (VS) and we are due to lose one of our Audit Managers in December 2016, through resignation. Therefore, we are currently reviewing our structure to assess the most appropriate structure for the service going forward, taking consideration of the need to ensure we provide a robust service to the Council in the most cost effective manner.
- 7.2 Financially, we are currently operating well within our establishment budget, with a small forecasted underspend which we would hope will contribute to the Council's overall savings target for 2016/17.

## 8. Key Targets for the next 6 months:

- 8.1 The Internal Audit Service looks forward to the rest of the year which with all that is currently going on will be challenging, however there are some key areas which we would like to see progress during the next six months:
- ❖ Full implementation of our Recommendation Tracker to help us measure the effectiveness of our service, by ensuring our recommendations are implemented and the benefits are realised by the Council.
  - ❖ Making better use of data available to us to enhance the assurances we are able to give and to target our resource more effectively.
  - ❖ Further development of our service offer to an extent that we can take it to the next level by expanding our trading outside of the Council , thereby retaining the skills and capacity within the team, but ultimately costing the Council less.
  - ❖ Reviewing our intranet pages to provide increased guidance and support online and encourage self-help in terms of best practice regarding risk management and internal control.
  - ❖ Completion of assurance mapping across the Council to better inform our Audit plan going forward – starting with the Code of Corporate Governance and the Corporate Risk Register.
  - ❖ Developing our structure in order to ensure we have sufficient resources to provide a comprehensive service, in the areas required when required.

## 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 has operated in accordance with the Public Sector Internal Audit Standards and Local Government Application.

9.4 Internal Audit independence is achieved by reporting lines which allow for unrestricted access to the Elected Mayor, Chief Executive, Strategic Leadership Team and Chair of the Audit Committee.