

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE
24th September 2013**

Report of: Chief Internal Auditor

Report Title: Internal Audit - Quarter One Update Report

Ward: Citywide

Officer presenting report: Alison Mullis, Chief Internal Auditor

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RECOMMENDATION

The Committee is recommended to note and comment on the attached Internal Audit quarterly update report for period 1st April to 30th June 2013.

This report was presented to the Cabinet Member for Finance and Corporate Services on 9th September 2013.

SUMMARY

Internal Audit now provide quarterly update reports which provide a summary of the work carried out by Internal Audit as the year progresses. The first quarter report is attached at Appendix A.

SIGNIFICANT ISSUES IN THE REPORT ARE:

- **Level of Risk:** The Chief Internal Auditors opinion on the level of risk within the Council's control, risk and governance environment remains 'Of Concern' for the first quarter. (Paragraph 2.1)
- **Success in the fight against Fraud/Error:** Work in this area continues to yield significant benefits for the Council. (Paragraph 2.2)
- **Risk Management:** Work to ensure strategic risk management arrangements are strengthened going forward is underway. (Paragraph 2.3)

Policy

There are no new policy implications arising from this report

Consultation:

Internal: None necessary
External: None necessary

1. Background

- 1.1 Internal Audit now provide quarterly update reports to management which provide a summary of the work carried out by Internal Audit as the year progresses. This is the first of those reports and it includes details of progress made in key risk areas identified for improvement in order to decrease the level of risk within the Council's control environment. The full report is attached at Appendix A, with a summary of significant issues provided below.
- 1.2 The Chief Internal Auditors' annual opinion on the level of risk within the Council's control, risk and governance environment was for the second year been determined as 'Of Concern' at the end of 2012/13. As such, the Audit Committee have instructed Internal Audit to monitor the environment closely and report regularly to the Committee the current and provide an update on the actions being taken to ensure the control environment improves, such that the level of risk is not of concern for a third year running.
- 1.3 Internal Audit is also keen to keep the Audit Committee up-to-date with its activities, performance and staffing/financial resources and the attached update report has been provided with a view to addressing all of the above requirements. However, should the Committee feel it has different information requirements, this can be discussed and agreed at this meeting.

2. Key Messages from the Report:

- 2.1 Level of Risk: The Chief Internal Auditors opinion on the level of risk within the Council's control, risk and governance environment remains '**Of Concern**' for the first quarter. Many of the agreed actions to address the key issues are in the initial stages of progression and as such it is too early to judge if they will have the desired impact on the control environment. Additionally, Internal Audit has received a significant number of fraud referrals during this first quarter. (See pages 3-5)
- 2.2 Success in the fight against Fraud/Error: The section continues to work proactively in the fight against fraud. The results demonstrate that this type of work continues to yield significant benefits for the Council, including:
 - An exercise with Local Taxation to identify properties at which exemption from Council Tax charges has been fraudulently claims has yielded an additional **£900k** in Council Tax being charged out to Bristol Households.
 - The Council's participation in the National Fraud Initiative continues and has to date identified **£104k** for potential recovery from Housing Benefit claimants who were not entitled and Creditors who have been paid twice in error. Recovery in is currently in progress.
 - In-House duplicate Creditor payment checking by Internal Audit in quarter 1 has stopped duplicate payments being despatched to Creditors to a value of **£220k** to date. This work is on-going.

- Internal Audit's work on Tenancy Fraud continues and has recovered **five properties** in quarter 1 which can now be re-allocated to those with a genuine housing need. The nominal value, based on rental value, of this work is estimated at £39k. Additionally, the Council's first criminal prosecution for Tenancy Fraud was successful and resulted in a custodial sentence. A press release was issued to discourage others from such practice following sentencing.
- An employee and contractor were successfully prosecuted for dishonest acts against the Council as a result of an investigation carried out by Internal Audit. Both were sentenced to 8 months custodial sentence and we are currently pursuing a compensation order for est £18k.

2.3 Risk Management: Work to ensure strategic risk management arrangements are more effective going forward is underway with Internal Audit working jointly with the Executive Office to ensure integrated business planning. An action plan for improvement is currently in draft and due to be finalised following consultation with the Risk Management Group early in October and then the Strategic Leadership Team. The Committee will receive full details of the issues and planned improvement work at the November 2013.

Other Options Considered

Not applicable.

Risk Assessment

There are no risks arising directly from this report, although clearly the work of Internal Audit minimises the risk of failures in the Council's internal control environment and governance arrangements, reduces the risk of fraud and other losses and increases the potential for prevention and detection of such issues.

Equalities Impact Assessment

None necessary for this report

Legal and Resource Implications

Legal - none sought

Resources - none arising from this report

Appendices

Appendix A - Internal Audit Quarterly Update report for Quarter 1

LOCAL GOVERNMENT ACCESS TO INFORMATION

INTERNAL AUDIT UPDATE REPORT FOR PERIOD ENDING:

Chief Internal Auditors Opinion on Level of Risk progress:						
11/12	12/13	Quarter 1 13/14	Quarter 2 13/14	Quarter 3 13/14	Quarter 4 13/14	Overall 13/14
Of Concern	Of Concern	Of Concern				
Key reasons for current opinion level: <ul style="list-style-type: none"> • Top Issues resolution well supported by SLT but too early to change opinion in these areas based on work carried out to date. • Significant number of fraud referrals during first quarter is concerning 						

Update on top Issues

ISSUE	PROGRESS	RESIDUAL RISK LEVEL
<p><u>Financial Governance/Control:</u></p> <p>Finance Change Programme and implementation of ABW has resulted in restricted Internal audit work to a) review Impact of restructure on the capacity and skill set to ensure control environment maintained b) Audit Review of financial systems and c) Audit review of control framework of ABW going forward.</p>	<p>Internal Audit (IA) work programme has been scheduled and agreed with Service Director Finance. This work is currently underway, however it has not progressed sufficiently for IA to formulate a revised opinion for this quarter. Service Director Finance has instructed Finance staff to work proactively with Internal Audit.</p> <p>Q1 work/completed or in progress:</p> <ul style="list-style-type: none"> • Migration – Debtors to ABW Sales to Cash – no major issues identified to date • Capital Accounting – Audit Review concluded moderate risk -see follow-up (Page3) • Bank Reconciliation and Cheque control – of concern risk level – see follow-up (Page3) • Payroll System – of concern risk level – see follow-up (Page3) • Treasury Management – in progress • ABW- User Set up – in progress <p>Six weekly progress meetings with Director of Organisational Development have been scheduled.</p>	Of concern
<p><u>Procurement:</u></p> <p>Non-compliance with Procurement Regulations is wide spread and culturally accepted. Poor</p>	<p>Internal Audit work programme to be scheduled and agreed – to include:</p> <ul style="list-style-type: none"> • Analysis of underlying causes for non-compliance with regulations • Internal Audit to ensure it inputs to the ROSP Review of the Corporate 	Of concern

ISSUE	PROGRESS	RESIDUAL RISK LEVEL
contracts monitoring has been identified as the cause of large overspend in capital programmes and the failure to monitor adherence to framework contracts has meant poor value for money in service areas.	<p>Procurement Team</p> <p>Q1 work/completed or in progress:</p> <ul style="list-style-type: none"> • Hengrove PFI monitoring – satisfactory (ref below) • Data analytics of procurement spend has identified that a competitive process is not always followed, that contract spend is not always monitored and orders are being split to avoid the need to go to the market. • Procurement Fraud e-training development 	
<p><u>Consultants:</u> Inadequate strategic overview of engagement and use of consultants. Non-compliance with procurement regulations and potentially poor VFM.</p>	<p>SLT has provided clarity regarding the use of consultants/agency staff going forward. It is felt this method of delivery is acceptable and favoured at a time when budgets are reducing provided clear policy/guidance is in place to govern their use and ensure value for money is obtained from such arrangements.</p> <p>SLT has identified the responsibility to develop the policy/guidance rests with Service Director HR- R Billingham, who has been informed. Internal Audit is to meet with R Billingham to discuss concerns regarding effective use of consultants.</p>	Moderate
<p><u>Implementation of Recommendations:</u> The extent to which agreed Internal Audit recommendations are not actioned within a reasonable time frame.</p>	<p>SLT has confirmed it supports implementation of recommendations and has asked Internal Audit to report non implementation by exception going forward. Agreement obtained that Internal Audit attend Directorate Leadership Team’s (DLT) to raise internal control issues directly.</p> <p>Quarterly meetings are taking place between IA/Strategic/Service Directors to discuss control issues/concerns.</p>	Of concern - too early to comment otherwise
<p><u>AGS Issues.</u> The number and nature of significant issues identified in the AGS review process.</p>	<p>SLT have asked Internal Audit to monitor progress and report by exception where significant issues are not being satisfactorily resolved.</p> <p>Work in progress and monitoring as part of quarterly meetings.</p>	Of concern Too early to comment

Follow-up Work and matters for Escalation

Improved sufficiently for level of Risk to be reduced:

DIRECTORATE	AUDIT	ORIGINAL LEVEL OF RISK	RESIDUAL LEVEL OF RISK	COMMENTS
OD	HB Assessment Teams	Of Concern	Moderate	
NH/CD	M Shed	Of Concern	Moderate	
OD	Electoral Register System	Of Concern	Moderate	

Failed to improve sufficiently for level of risk to be reduced:

DIRECTORATE	AUDIT	ORIGINAL LEVEL OF RISK	RESIDUAL LEVEL OF RISK	COMMENTS
OD	Markets Operation	Of Concern	Of Concern	A number of actions implemented. Residual actions currently under discussion.
OD	Bank Reconciliation and Cheque Control	Of Concern	Of Concern	A number of actions implemented. Residual actions currently under discussion.

Fraud and Value for Money Work

Pro-active Fraud Testing

DIRECTORATE	TESTING AREA	STATUS	COMMENTS
OD	Student Exemption Fraud – exercise with Local Taxation.	Complete	£900k (est) increased Council Tax billing to Bristol households as a result of this one-off exercise for this year. Collection ongoing as part of normal Council Tax collection process.
CORP	National Fraud Initiative	On going	£104k of savings identified for recovery to date.
CORP	Creditors Testing – in-house matching exercise	In Progress	£220k of duplicate payments have been stopped to date
CORP	Procurement Analytics	In Progress	From last exercise we are focussing on three contractors where spend has raised concerns. These are currently being followed

DIRECTORATE	TESTING AREA	STATUS	COMMENTS
			up. Some of the evidence produced by the exercise is supporting allegation from a whistleblower.
NH	Tenancy Fraud	On going	5 properties regained during quarter 1. Lower than this time last year due to loss of one team member. Nominal value to Council is £37k
OD	NNDR Fraud	In Progress	Pilot exercise with National Fraud Authority/Ordnance Survey and Credit Reference agency to identify extent of NNDR Fraud.

Re-active Fraud (Key: Red-Fraud proven Yellow- Control issues Green-No issues)

DIRECTORATE	FRAUD/IRREGULARITY AREA	ORIGIN	STATUS	COMMENTS
OD	Allegation – Material income misappropriation	W Blower	In Progress	Initial enquiries completed. Action plan under development
NH b/f	Procurement – Contractor favouring	W Blower	Complete	Both Contractor (Lowrey Fencing) and Employee found guilty and custodial sentences awarded. Currently pursuing a compensation order for Est £18k.
NH	Procurement – Alleged Contractor favouring	Officer	On Hold	To be resumed when resource available.
NH	Procurement – Alleged inflation of contract	W Blower	In Progress	
Corp	Alleged Procurement Card Misuse	Officer	NFA	Initial enquiries completed concluded low priority and unable to substantiate allegations.
OD	Procurement Card Expenditure – mis-allocation or invalid expenditure query	Officer	Watching Brief	Referred to STS Finance for resolution. Update awaited.
NH	Community Care Grant	W/Blower	Complete	Grant stopped. Organisation disbanded. Criminal proceedings pending.
NH/Reg	Alleged Misuse of Grant Funding	Fair	In	Preliminary assessment in

DIRECTORATE	FRAUD/IRREGULARITY AREA	ORIGIN	STATUS	COMMENTS
		Comment/W Blower	Progress	progress.
NH	Alleged Misuse of Grant Funding	W/Blower	NFA at this time	Further information has not been forthcoming.
NH/CD	Blue Badge Misuse	Officer	In Progress	Preliminary assessment in progress.
NH/CD	Misuse of Council Property (Council Van)	W/Blower	Complete	No issues identified.
OD	Misuse of Council Property (Telephone)	Officer	In Progress	Poor controls – to be finalised and reported.
NH/CD	Concessionary Fares	Neighbouring Council	In Progress	Preliminary assessment in progress.
CYPS	Fleet car misuse/Misappropriated mileage claims	Service Manager	In Progress	IA supported management investigation, case referred to Police, disciplinary pending.
HSC	Administration of Imprest Account	Service Director	In Progress	Identified areas of noncompliance with Financial Regulations, disciplinary pending.

Key areas of Assurance Work Completed

DIRECTORATE	AUDIT	LEVEL OF RISK	COMMENTS
HSC	Safeguarding Arrangements	Of Concern	Adult Safeguarding in Bristol, like the rest of the country is seeing increasing demand. HSC have confirmed that they have in place a comprehensive plan which will ensure they have the right resources to support their staff and ensure that there are clear strategic and operational lines of accountability for the recording of safeguarding activity and training and awareness raising. Internal Audit has not yet reviewed the plan, but will do so as part of their scheduled follow-up work.
HSC	Direct Payments	Of Concern	Issues relating to financial reviews and administration of direct payments expenditure were identified. Action plan considered by Service Director – H&SC restructure will address the issues. Formal follow up due June 2014 once change fully embedded but watching brief to be maintained at quarterly meetings.
OD	Payroll	Of Concern	Issue relating to control over establishment, overpayment of leavers and PIID completion.
CYPS	Fostering Service – In house and Independent	Moderate	
CYPS	Personalisation - Direct Payments (Young People)	Moderate	
CD	Hengrove PFI Monitoring Arrangements	Moderate	
OD	Capital Accounting	Moderate	

Risk Management Programme

SUBJECT	STATUS
Independent review of Risk Management Arrangements	Completed
Integration of Core Governance Systems and Challenge Processes – Planning, risk, performance, budgeting	In Progress
Review of Risk Identification methodologies and development of a more effective Corporate Risk Register	In Progress
Action Plan development in response to Risk Management review	In Progress
Audit Committee Report	In draft

QUARTER 1 PERFORMANCE

<u>Value for Money Indicators</u>	Annual Target 13/14	Quarter Target: (1)	Quarter Actual: (1)
<u>Effectiveness Indicators</u>			
Final Reports issued within 3 weeks of audit completion.	92%	92%	89%
High/Medium recommendations Implemented or Escalated	95%	35%	44%
No. of Council Properties recovered	35	5	5
% of planned Assurance work completed/in progress/not required by auditee each quarter	90%	90%	100%
% of QAQs with a score of 4 or more	95%	95%	100%
External Audit Opinion on Internal Audit (Annual Indicator)	Positive	N/A	N/A
<u>Efficiency Indicator</u>			
% of planned follow-up work completed/in progress within protocol timescale.	90%	90%	80%
Chargeable days (Annual Indicator)	69%	N/A	N/A
<u>Economy indicator</u>			
Audit cost per £1M gross turnover (Annual Target)	Comparable to other comparator groups	N/A	N/A

Financial Resource

Spending is currently well within budget and is forecast to be such going forward. A small surplus is currently building, but this will be utilised to provide additional HR resource as detailed below.

HR Resource

Actual resources for the first quarter were aligned with that predicted at the beginning of the year taking into account long-term sickness issues and maternity. However, resources going forward will be severely affected by sustained long-term sickness, maternity leave and the loss of a further member of staff, such that the resource available for assurance work is reduced to below the statutory minimum, as calculated as part of the 3-year budget challenge. We will be investigating the possibility of obtaining additional resource from elsewhere in the short term, with a view to tackling the resource issue in the long term as part of the proposed restructure of the Audit service. Additionally, it is our intention to further use the government funding to appoint another investigator to progress the Tenancy Fraud initiative.

Internal Audit Service Review

The first tranche of the review has been completed in that initial consultation with Key stakeholders has taken place, we have defined our strategic budget in line with the 3 year budget challenge and we are currently trialling the revised Internal Audit structure in readiness for decision making on our future structure.

The next tranche of the review is to complete our business case and appoint to the revised structure – budget permitting.

The Audit Committee will be kept informed of our progress through these quarterly updates, as appropriate.