

Internal Audit Update – January 2024

31st January 2024

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1. Background

- 1.1 Internal Audit provide independent and objective assurance to management and those charged with governance on the systems of internal control that have been established, contributing to the overall assurance framework. This is achieved by systematically examining, evaluating, testing, and reporting on the effectiveness of the system of internal control through a risk-based audit methodology. Where weakness or non-compliance is found, recommendations are made to management to improve the operation of internal controls. Management is responsible for actioning recommendations to improve internal controls, strengthening risk management arrangements, or accepting the risks.
- 1.2 Internal Audit activity is governed by the Accounts and Audit Regulations and the Public Sector Internal Audit Standards. These standards seek to secure a professional, independent, and objective internal audit by setting out the mission and definition of Internal Auditing, the core principles for professional practice, together with a Code of Ethics. Specific attribute and performance standards provide guidance on how internal auditing should be carried out and the function managed. Guidance on the interpretation of the Standards is set out by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Local Government Application Note.
- 1.3 The baseline audit plan for 2023/24, developed following the completion of a risk assessment, was agreed by the Audit Committee at the March meeting. The audit plan is dynamic and is reviewed and updated throughout the year, based on discussions, feedback received, emerging issues, and changing risks. Additionally the views of the Audit Committee are important, any concerns flagged by Members will be fed into the planning process.
- 1.4 This report provides an update to the Audit Committee on Internal Audit activity for November and December 2023. It summarises the key findings arising from the work completed and provides a summary of progress against the 2023/24 Internal Audit plan. Reports summarising the key findings arising from Internal Audit activity completed between April – October 2023 have been presented at previous Audit Committee meetings.

2. Significant Issues Impacting upon the Organisation

2.1 The organisation continues to face significant challenges. These include:

- Finalisation of the Statement of Accounts for the year ending 31st March 2021 and 31st March 2022.
- Operating under section 114 notices and additional financial controls.
- Setting a balanced budget.
- Implementing the agreed job evaluation methodology.
- Actioning the Statutory Recommendations issued to the Council under Schedule 7 of the Local Audit and Accountability Act 2014.

3 Internal Audit Final Reports Issued November and December 2023

3.1 Audit reports are given risk and assurance ratings to assist in the identification of the level of corporate importance.

Risk Ratings

Low (Green) - Non-material issues

Medium (Amber) - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance

High (Red) - Matters which in our view are of high corporate importance, high financial materiality, significant reputation risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

Assurance Ratings

Level 1: Controls evaluated are adequate, appropriate and are operating effectively to ensure that risks are being managed and objectives achieved.

Level 2: Some control weaknesses noted. However, generally the controls evaluated are adequate, appropriate, and effective.

Level 3: Control weaknesses of a significant nature, or the number of minor weaknesses noted was high. Management of risks and achievement of objectives is compromised.

Level 4: Controls not adequate, appropriate, or effective. Risks not adequately managed and achievement of objectives unlikely.

3.2 During November and December 2023 27 final reports have been issued:

	Nov 2023	Dec 2023
Audit Reports	8	3
Follow-up Reviews	1	4
School Audits	4	5
Investigations	2	0
	15	12

3.3 A breakdown and summary of the key findings is given below:

Audit Reviews

Month issued	Final Report	Directorate	Risk Rating for Council	Assurance Level	Issues Identified / Assurance Provided	Next Steps
Nov 2023	The Funeral Service	Adult Social Care	Medium	Level 3	Although the governance arrangements for monitoring and management of the Funeral Service are compliant with procedures and are assisting with the provision of an adequate and effective service, we have continued to identify areas for improvement. These include reviewing fees and charges every three years, closure of funeral accounts, and the resilience of IT systems.	Recommendations to be added to action tracker and monitored. Follow-up to be considered dependent on actioning of recommendations.

Month issued	Final Report	Directorate	Risk Rating for Council	Assurance Level	Issues Identified / Assurance Provided	Next Steps
Nov 2023	Local Government & Social Care Ombudsman (LGSCO) - Homelessness Cases	City Housing	Medium	Level 3	<p>Areas for strengthening processes around the management of LGSCO investigations and rulings have been identified. During 2022/23, the level of upheld complaints about BCC (per capita) was double that of any other council. In addition, BCC provided a 'satisfactory remedy' in just 7% of upheld cases before the complaint reached the Ombudsman, compared to a national average of 10%.</p> <p>We identified that the arrangements for reviewing, tracking, and addressing inherent service delivery weaknesses in terms of Homelessness related cases require strengthening.</p>	<p>Recommendations to be added to action tracker and monitored.</p> <p>Follow-up to be considered dependent on actioning of recommendations.</p>
Dec 2023	Public Health Financial Management of Grant Allocations	Strategy Equalities & Partnerships	Medium	Level 3	<p>We found that management and monitoring of funding was inconsistent. Whilst there was good evidence to validate the appropriate use of funding, we identified issues with timely and robust management, such as a lack of regular formal meetings with service providers. Effective monitoring has been made more difficult as OHID (Office for Health Improvement and Disparities) has not been forthcoming with guidance on what a proportionate amount of monitoring should look like, and the amount of evidence expected to be obtained.</p>	<p>Recommendations to be added to action tracker and monitored.</p> <p>Follow-up to be considered dependent on actioning of recommendations.</p>
Nov 2023	Housing Capital Receipts Pooling	Finance	Low	Level 3	<p>We established that there are processes in place to complete the Capital Receipts Pooling claims. However, our testing did identify a lack of documented procedures or process maps, and no reconciliation between Northgate and Oracle.</p>	<p>Recommendations to be added to action tracker and monitored.</p>

Month issued	Final Report	Directorate	Risk Rating for Council	Assurance Level	Issues Identified / Assurance Provided	Next Steps
					Despite significant effort we have not been provided with client comments from Finance or the Home Ownership Team. We have therefore issued the report on the basis that the findings and recommendations have been accepted and will be fully implemented within 3 months of this report.	
Nov 2023	Schools Related Party Transactions	Finance	Low	Level 3	Maintained schools must submit a Schools Financial Value Standard (SFVS), this now requires schools to confirm they have adequate arrangements in place to manage Related Party Transactions (RPTs) and complete an excel spreadsheet template detailing RTPs, which must be submitted with their SFVS. We found that schools were ensuring RTP's were appropriately declared. However, there were weaknesses within evidencing transparency in Governing Board minutes to show that conflicts of interest had been properly managed. We acknowledge that the need to declare RPT in the SFVS is relatively new, but the principles of transparency as part of good Governance in procurement should be embedded in all schools.	Recommendations to be added to action tracker and monitored.
Nov 2023	Oracle Accounts Payable - One Time Payments (OTPs) & Request for Payments (RFPs)	Finance	Low	Level 2	A One Time Payment (OTP) is a request for a payment when there is no invoice or vendor in place within Oracle. A Request for Payment (RFP) is a request for a payment where there is a vendor but no invoice. As there is no invoice, OTP's and RTP's carry a higher risk and need to be tightly controlled.	Recommendations to be added to action tracker and monitored.

Month issued	Final Report	Directorate	Risk Rating for Council	Assurance Level	Issues Identified / Assurance Provided	Next Steps
					<p>Whilst our review found no obvious instances of fraud/manipulation of OTP and RTP, we did identify:</p> <ul style="list-style-type: none"> • Duplicate Payments – 26 duplicate OTPs for a value of £28,980, and 1 duplicate RFP for a value of £50,000. A number of these duplicates occurred due to an upload error which was known about and has now been rectified. Recovery is underway. • OTPs are being made where a vendor is in place. <p>These payments are being reviewed and OTPs rejected where vendors are in place.</p>	Exercise to be repeated in 2024/25.
Nov 2023	People Services Compliance with Key Policies - Acting Up Pay	People Services	Low	Level 2	Acting up pay is when an employee temporarily undertakes the full duties and responsibilities of a post graded higher than their substantive post. Our testing identified that the policy and procedures for granting acting up payments have been followed. However, we did identify the most recent review date had not always been recorded and whilst available, business cases had not always been saved to the employee Document Records.	Recommendations to be added to action tracker and monitored.
Dec 2023	Rent Collection and Charges - Management of Rent Refunds	Adult Social Care	Low	Level 2	The current procedure for processing and approving of refunds has been made overly complicated due to Oracle role alignment. Work-around measures have had to be implemented to compensate. Discussions are taking place to streamline the process.	Recommendations to be added to action tracker and monitored.

Month issued	Final Report	Directorate	Risk Rating for Council	Assurance Level	Issues Identified / Assurance Provided	Next Steps
Dec 2023	Public Health Compliance with Corporate Recruitment Practice	Strategy Equalities & Partnerships	Low	Level 2	Corporate recruitment policies and procedures are being adhered to within Public Health (PH) teams and the required information was available to support the recruitment reviewed.	Recommendations to be added to action tracker and monitored.
Nov 2023	Manual Invoice related CHAPS Payments - Accounts Payable	Finance	Low	Level 1	Procedures detailing the processes to be followed for invoices paid via CHAPS, to ensure they are correctly recorded and accounted for, are in place. Testing confirmed that the procedures are being complied with. Invoice CHAPS payments have been reconciled to bank statements by Cashbooks.	Recommendations to be added to action tracker and monitored.
Nov 2023	Public Health- Adherence to NICE Guidelines NG44	Strategy Equalities & Partnerships	Low	Level 1	We found that there was a clear understanding of the requirements of the National Institute for Health and Clinical Excellence (NICE) requirements/guideline recommendations for NG44 – Community Engagement – Improving health and wellbeing and reducing health inequalities, and that these were being considered and appropriately complied with within the projects/services reviewed.	Recommendations to be added to action tracker and monitored.

Follow-up Reports

Month issued	Final Report		Original Risk Rating	Revised Risk Rating	Issues Identified	Next Steps
Nov 2023	BACS Follow up	Finance	Low	Low	Progress has been made to improve security on the BACS processing system and a second administrator has been setup for contingency purposes. A periodic review of access is now scheduled.	Consider as part of risk assessment for 2024/25 audit plan.
Dec 2023	Fleet Services External Review	City Operations	Medium	Medium	This follow up review has identified that, to date, no further action has been taken to review or implement the Operational Improvement Plan (OIP), for Fleet Services previously produced in conjunction with Ernst & Young (EY) consultants. As a result, the wide range of long standing strategic and operational issues within the Fleet Services function in WMS remain unaddressed. Whilst no action has been taken to date, we have been informed that ongoing discussions are currently being held between City Operations and Commissioners in relation to a new Transformation plan.	Continue to monitor and escalate to Audit Committee if actions remain outstanding.
Dec 2023	GDPR Compliance City Operations	City Operations	Medium	Medium	The previously agreed recommendations have not yet been implemented fully, but there has been progress since the last review. The Business Support function are now re-developing their Information Asset Register (IAR) to make it easier to maintain and address the outstanding actions.	Continue to monitor and escalate to Audit Committee if actions remain outstanding.
Dec 2023	IT Governance	Strategy Equalities & Partnerships	Medium	Low	Our previous recommendations have been completed, and the level of risk has now reduced. Following a redesign and implementation of a new operating model and structure, the new Digital and Technology Service was launched on 1 st March 2023.	Consider as part of risk assessment for 2024/25 audit plan.

Month issued	Final Report		Original Risk Rating	Revised Risk Rating	Issues Identified	Next Steps
Dec 2023	IT Asset and Configuration Management	Strategy Equalities & Partnerships	Medium	Medium	The position from the previous audit has not largely changed. However, work on developing a new Hardware Governance initiative to simplify the management of assets and gain control over the current volume of inactive assets within the estate has now commenced. The level of 'Inactive' assets without a sub-status has reduced.	Continue to monitor and escalate to Audit Committee is actions remain outstanding.

School Audit Reports

- 3.4 Schools received confirmation of their 2023/24 financial year carry forward balances (CFB) from the Local Authority (LA) on 24 November. We understand that schools were asked to respond to the LA with any queries and concerns. Clarification of their CFB along with the reconciliation of income and expenditure files downloads from Oracle should enable schools to review their financial position, respond, plan, and report to Governors accordingly during the spring term 2024.
- 3.5 The school audit reports finalised in November and December, showed similar trends to those seen throughout the year. In the main we found good systems and controls in place to ensure compliance and that Governors and Senior Leadership teams had confidence in each other. There is firm evidence that schools are taking the financial challenges seriously and there is a focus on maintaining or bringing about financial stability, especially where there are falling pupil numbers due to demographics and where schools are supporting a high proportion of pupils with SEND. Operationally we have continued to see a need to further strengthen compliance and controls in relation to purchasing including purchase cards and delegation frameworks. Our follow up work identified that progress had been slower than expected, and as a result is likely to lead to full audit reviews being undertaken within 12 months because this will be factored into the school's risk-based audit planning.

3.6 We acknowledge that our risk-based planning invariably means the audits are focused on those schools facing greater financial challenges. Where there are significant financial concerns identified during the audit this is raised with the LA, and when appropriate, multi-disciplinary project boards are established by the LA to support the schools in addressing any deficit and to bring about financial stability.

4. Other work

4.1 In addition to the ongoing audit assurance reviews, work is ongoing to support management. Whilst this work does not ultimately result in the provision of assurance it is considered to be key in supporting the organisation. A brief outline of this ongoing work is provided below:

- **Oracle:** Appointed as workstream lead and sponsor for the Oracle Risk Management Cloud implementation.

Under the Public Sector Internal Audit Standards, Standard 1112 Chief Audit Executive Roles Beyond Internal Auditing, where the Chief Audit Executive / Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. When asked to undertake any additional roles/responsibilities outside of internal auditing, the Chief Audit Executive / Head of Internal Audit must highlight to the board / Audit Committee any potential or perceived impairment to independence and objectivity.

Whilst this role does limit my independence any assurance related activities will be reported through the Principal Group Auditor to maintain a separate set of roles. As a key tool for assisting in managing the effectiveness of segregation of duties the External Auditor will also be maintaining oversight and independently reporting to the Committee, further strengthening the arrangement.

- **Pay compliance:** we are continuing to provide ongoing support and data analysis to support the pay compliance group. Undertaken timesheet compliance testing, which will be repeated in January, to ensure appropriate working practices are consistently adopted.
- **Grant Certification:** Completion of grant certifications.

- **Adult Social Care home support and supported living commissioning:** Provided a critical friend role to support the Directorate in identification of delays and issues arising from the payment of packages of care.
- **Home to School Transport:** Supported identification of lessons learnt in relation to the 365 IT Solution.
- **Banking:** Examination of the processes in place to open / close and reconcile bank accounts.
- **Central Recommendation Tracker:** Working with Digital Technology Services to develop a central audit recommendation tracker. The database is now in place, work to finalise the workflow automation and Power BI dashboards is nearing completion. Following testing, implementation will begin on a phased basis. Our follow up progress will be reviewed in light of the central tracker.
- **Audit Committee Report Repository:** A central repository to provide Audit Committee Members access to Internal Audit reports has been developed. The solution is currently being tested and the security model applied. Subject to completion of the testing it is hoped that January's audit reports will be made available through this solution.

5. Internal Audit Plan

- 5.1 As at the end of December 2023 56% of the 2023/24 plan has been completed to draft report stage, this is just slightly below our 65% target. Our target for the year is to complete 95% of the plan to draft report stage.
- 5.2 We have received an increased number of requests to defer or cancel jobs due to work demands and pressures. We are currently discussing these requests with directors and their management teams.
- 5.3 The plan remains dynamic and under review. The plan continues to be assessed and reprioritised based on emerging issues and demands.
- 5.4 Work to update the audit needs assessment is commencing, this will support the development of 2023/24 Internal Audit plan.

6. Emerging Issues

New Global Internal Audit Standards

- 6.1 Following a period of consultation the International Internal Audit Standards Board have released new Global Internal Audit Standards. The new standards become effective from 9th January 2025. The format and content of the new standards differs from the current International Professional Practice Framework. The UK Public Sector Internal Audit Standards Advisory Board (IASAB) has begun its review of the new global standards. The IASAB will determine the implications for the Public Sector Internal Audit Standards (PSIAS) and will develop proposals for revised material which will be suitable for the UK public sector context. Any subsequent changes to the UK's PSIAS, and their implementation, will be subject to consultation and appropriate transitional arrangements.
- 6.2 We continue to maintain a close watching brief on the development and revision of the PSIAS and will report back on the implications once further guidance is published.