

Subject:	Internal Audit and Corporate Fraud Progress Report		
Date of Meeting:	27 September 2016		
Report of:	Head of Internal Audit		
Contact Officer:	Name:	Graham Liddell	Tel: 01273 291323
	Email:	Graham.Liddell@brighton-hove.gov.uk	
Ward(s) affected:	All		

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

1.1 This purpose of this report is to provide assurance to the Audit & Standards Committee that:

- the internal audit and corporate fraud teams are delivering the audit and corporate fraud strategy and plan for 2016/17
- the council is dealing with governance and control weaknesses appropriately.

1.2 The report summarises:

- the progress made against the Internal Audit and Corporate Fraud Plan
- the key issues identified and action being taken
- progress made by management in implementing audit recommendations.

2. RECOMMENDATIONS

2.1 That the Audit & Standards Committee notes the report.

3. CONTEXT/ BACKGROUND INFORMATION

3.1 The Audit & Standards Committee approved the Internal Audit and Corporate Fraud Plan on 8 March 2016. The plan comprised:

- 1,115 audit days covering:
 - audit reviews based on assessment of risk
 - following up progress on implementing audit recommendations
- 475 anti-fraud and corruption days for:
 - reviewing and updating of fraud policies
 - fraud awareness and publicity
 - data matching
 - investigating and pursuing fraud focused on high priority areas.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

Progress against the audit plan

4.1 Internal audit has issued 11 reports out of a planned total of 61 reports for the year. This represents 18% of the audit plan and is lower than the 20% of reports delivered at the same time last year. This slippage is because:

- We have carried substantial work on unplanned audits. These are now approaching completion and will be reported to the November Audit & Standards Committee.
- We have also been working closely with colleagues from Orbis to work towards a joint service including:
 - developing a more efficient and effective audit approach
 - improving the way we report our audits.
 - seconding a member of staff on a temporary promotion.

Whilst we will benefit from this joint working regardless of whether we formally join Orbis, this investment of time in the first quarter of 2016/17 has impacted on our delivery of the audit plan.

- As a small team we are particularly vulnerable to staff vacancies and long-term sickness. During the first quarter of 2016/17 this has contributed to losing the equivalent of just over 10% of our workforce.

4.2 Long-term sickness issues have now been resolved and we are addressing the backlog of work by:

- seeking a secondment to fill our remaining vacancy
- working with our private sector partner TIAA

4.3 We expect to deliver at least 90% of the audit plan by April 2017 and will report back to the Audit & Standards Committee in November to consider whether to propose changes to the audit plan. This will consider:

- changing priorities for the council
- the results of work carried out (including any unplanned audit work)
- the level of audit resource available

Progress against the corporate fraud plan

4.4 The Corporate Fraud Team has made good progress against its plan for 2016/17:

- **counter-fraud framework**
 - The council's new counter-fraud framework was approved by the Audit & Standards Committee on 21 June 2016. The new framework updated and streamlined existing policies and

addressed areas that had not previously been included such as dealing with bribery and setting out a sanctions policy.

- **fraud awareness and publicity**
 - Our approach to counter fraud has been publicised internally through the council's intranet site (The Wave). Over 800 staff, nominated by their managers, have now completed the council's fraud e-learning tool. The e-learning tool is now part of the induction process for all staff and is being refreshed for 2017.
 - Externally, we have launched a new website to enable members of the public to report suspected fraud more easily. We are also working with the East Sussex fraud-hub to publicise the counter-fraud work we carry out and will be taking part in International Fraud Awareness Week in November 2016.

- **data matching**
 - We are on track for submitting data to the National Fraud Initiative (NFI) by the deadline of 10 October 2016. This includes alerting staff and members of the public to explain how NFI will use data. We will review the outcome of the NFI when the data matches are released at the end of January 2017.
 - We have developed data matching reports to identify potential cases for misuse of council dwellings and residents parking permits. These will be used to focus our investigation work from September 2016.

- **investigating and pursuing fraud focused on high priority areas**
 - The Corporate Fraud Team has worked with colleagues from housing to introduce preventative controls in respect of Right to Buy. All applicants now have to provide additional information to support their application. The corporate fraud team then carry out detailed tests to ensure that all applicants are eligible and have a legitimate source of finance to purchase their council dwelling.
 - Three properties have been returned to the council following investigations into housing tenancy fraud. This is lower than the 10 properties returned at this stage last year. We are working with colleagues from housing and legal to understand the reasons for this slow down.
 - The council has retained or destroyed 59 Blue Badges and five residents parking permits.
 - The corporate fraud and audit teams have together worked on a range of cases that have resulted in referrals to relevant authorities, recovery of funds and disciplinary action against Brighton & Hove staff. Further joint work is planned in respect of business rates and historic right to buy cases.

Key Audit findings

4.5 Table 1 sets out the key audit findings.

Table 1 – Key audit findings

Audit report	Assurance rating	Key issues	Agreed management action
Business Continuity	Limited	<p>The Emergency Planning & Resilience team is working hard to ensure that up to date robust Business Continuity Plans are in place for all services. However keeping business continuity plans up to date is not always given a high priority and the team requires greater corporate support to achieve these goals.</p>	<p>Action and deadlines for all recommendations agreed. All due to be complete by 31 March 2017 as part of a wider service redesign supported by the Executive Director (Finance & Resources)</p> <p>These include clearer communication of the importance and requirements for business continuity plans and escalating to executive directors and ELT where needed.</p>
Declarations of Interests, Gifts & Hospitality	Reasonable	<p>There is now a clear corporate process for declarations of interest. However a significant proportion of declarations of interest submissions have not been reviewed by a line manager and for some declarations, there is insufficient evidence that these conflicts of interest are being effectively managed.</p> <p>Authorisation of gifts & hospitality is not always being sought in advance. Narrative is generally not provided to support authorisations.</p>	<p>Action and deadlines for all recommendations agreed. All due to be complete by 31 December 2017.</p> <p>These include updating and communicating policies to staff and improving the information provided to Directorate Management Teams to provide better management oversight.</p>
Contract Waivers	Limited	<p>During 2015/16 the council significantly increased its use of contract waivers (63 awards with a total value of £21m).</p> <p>Whilst all waiver requests were approved in accordance with Contract Standing Orders, some were made either at the last minute (the month preceding the contract decision) or retrospectively.</p>	<p>Actions agreed.</p> <p>The proposal to focus more resources on contract management will help address these issues.</p>
ICT Disposals	Limited	<p>The ICT waste operational procedures are not consistent with the ICT disposal policy.</p> <p>The waste contractor does not hold recognised accreditation for handling confidential waste,</p>	<p>Actions agreed.</p> <p>Progress on implementing recommendations to be reported to the Information Governance Board.</p>

		contrary to the Council policy requirements. Some operations are sub-contracted, contrary to the existing contract.	
Budgetary management	Reasonable	<p>During 2015/16 the council:</p> <ul style="list-style-type: none"> • had effective processes, guidance and training in place to support key aspects of budget setting and monitoring. • successfully managed a projected overspend of £8.7 million by introducing emergency spending controls. <p>These arrangements demonstrate that the council can address short-term financial challenges. However, relying on corporate interventions to fund over spending by services:</p> <ul style="list-style-type: none"> • undermines the principle that budget holders should be accountable for delivering their budgets • if used repeatedly or over an extended period of time, expose the council to significant long-term risks. <p>The finance department has supported services that have identified overspending risks in 2016/17 to develop recovery plans at an earlier stage of the budget cycle.</p>	<p>Action and deadlines for all recommendations agreed. All due to be complete for the 2017/18 budget planning cycle.</p> <p>These include:</p> <ul style="list-style-type: none"> • directorates taking full accountability for managing their budgets. • bringing forward the identification of budget risks to ensure that overspending risks are fully identified, considered and resolved as part of the budget setting process.

Progress made in implementing recommendations

4.6 We have received confirmation that 82% of recommendations due to be implemented by 30 June 2016 had been implemented (see table 2).

Table 2 – implementation of audit recommendations (as at 13 September 2016)

Year	Audit Recs due	Database not updated by managers	Not implemented (or less than 50% implemented)	Implemented (includes part implemented > 50%)	Implemented (%)
31 July 2015	225	28	25	171	76%
30 June 2016	221	25	8	182	82%

4.7 This is improved from the the rate reported at a similar time last year which but is lower that the final implementation rate of 88% for 2015/16. This does not suggest an underlying reduction in implementation rates because:

- the percentage has been artificially depressed by removing from the calculation recommendations that were due more than 12 months ago and have been implemented or are no longer relevant.
- As at 25 August 2016, we have not been provided with progress for 11% of recommendations. We have treated these recommendations as not implemented. We are currently reminding managers to provide updates and we expect this percentage to reduce and the percentage of implemented recommendations to increase.

4.8 The high priority recommendations that have not been yet implemented are set out in table 3.

Table 3 – high priority recommendations not implemented (as at 25 August 2016)

Recommendation	Directorate	Due date	Progress as at 25 August 2016
<u>Pensions administration</u> <ul style="list-style-type: none"> • Processes to ensure the relevant pension fund is informed of pension fund members leaving the authority in a timely manner should be introduced. 	Finance & Resources	30 June 2016	To be included in review of processes for using Pensionsweb.
<u>Parking permits</u> <ul style="list-style-type: none"> • All applications (whether physical or electronic) should be adequately retained to enable easy retrieval in the event that this is required. This should also be extended to include copies of any proofs supplied in support of an application. • All renewal applications should be validated (electronically if possible) to ensure evidence of ongoing eligibility is confirmed. Should the service move towards awarding permits with no expiry through a Direct Debit process, verification checks should still be undertaken every 12 months. Any applications which cannot be validated electronically should be subject to robust address proof checks, both at initial application stage, and on every renewal. • Parking should ensure that any improvements to the verification 	Economy, Environment and Culture	30 June 2016	As reported to Audit & Standards, the council is procuring an online permit system. It is expected that this will become operational in by February 2017. The new system should both prevent permits being awarded to residents that are not entitled and facilitate the prompt cancelling of any permit that is not held legitimately.

process are extended to the processing of all other relevant permit types where residency is a condition of issue.			
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- 4.9 We are continuing to work with ELT and other senior managers to ensure that all managers give sufficient priority to address audit recommendations, particularly high priority recommendations.

Future developments of the service

- 4.10 As reported to Policy and Resources Committee, the council is currently reviewing the best way of delivering its support functions, including Internal Audit and Corporate Fraud. The Head of Internal Audit is carrying out a detailed assessment of possible options including retaining the service in-house, working as part of a shared service with other local authorities, and outsourcing.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 None

6. CONCLUSION

- 6.1 The Committee is asked to note the report.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 It is expected that the Internal Audit and Corporate Fraud Plan 2016/17 will be delivered within existing budgetary resources. Progress against the plan and action taken in line with recommendations support the robustness and resilience of the council's practices and procedures in support of the council's overall financial position.

Finance Officer Consulted: James Hengeveld

Date: XXXXX

Legal Implications:

- 7.2 The Accounts and Audit Regulations 2015 require the Council to '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'. It is a legitimate part of the Audit and Standards Committee's role to review the level of work completed and planned by internal audit.

Lawyer Consulted: Elizabeth Culbert

Date: 250816

Equalities Implications:

7.3 There are no direct equalities implications.

Sustainability Implications:

7.4 There are no direct sustainability implications.

SUPPORTING DOCUMENTATION

Appendices:

1. None

Documents in Members' Rooms

1. None

Background Documents

1. None