

# Internal Audit and Counter Fraud Quarter 3 Progress Report 2018/19

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## 1. Summary of Completed Audits

### Creditors – Reasonable Assurance

- 1.1 The purpose of this audit was to review controls in place to provide assurance that payments to suppliers are accurate, authorised and bona fide. The review included examining reconciliation controls and the protocols for amending standing data. During the period April to August 2018 there were 168,000 creditor transactions totalling £170 million.
- 1.2 The audit found that the majority of controls within the creditors system are working correctly. Data analytics was used and concluded that there was no evidence to suggest orders are being split to circumvent approval controls within the system. BACS payment procedures were found to be operating correctly, as were reconciliations with the general ledger.
- 1.3 Control improvements were agreed in relation to:
  - payments made to creditors for multiple invoices, where there is input into the system via bulk uploads e.g. for electricity;
  - evidencing of a control in the CHAPS payment process.

### Council Tax – Substantial Assurance

- 1.4 The estimated net collectable Council Tax debit for the last financial year (2017/18) was £162.3m. This relates to approximately 130,000 chargeable dwellings across the City.
- 1.5 The audit provided assurance that all taxable properties have been identified and correctly billed, and that collection and recovery processes work effectively. Also that key reconciliations are in place.
- 1.6 The report review included only one low action in relation to improving write-off procedures.

### Housing and Council Tax Benefits – Reasonable Assurance

- 1.7 At the time of audit, projected housing and council tax benefit expenditure for 2018/19 was £134.7m.
- 1.8 The audit was focused on providing assurance that all benefit payments are legitimate and appropriate and that assessments are accurate and timely. It also reviewed the controls relating to overpayments and write-offs, quality assurance arrangements and reconciliations with other key financial systems.

- 1.9 Whilst the majority of key controls were found to be in place, actions for improvement were agreed in relation to:
- monitoring over the percentage of overpayments due to administrative error to make sure DWP thresholds are not breached;
  - investigating and resolving delays in payments being made;
  - carrying out quality assurance work on performance data;
  - Introducing additional checks on some self-employed cases.

### **Wellbeing Project - Substantial Assurance**

- 1.10 The purpose of this report was to summarise the work to date in relation to the Wellbeing Steering Group and associated project and to provide an opinion on progress to date, and its future plans.
- 1.11 The Wellbeing Steering Group was established as part of the Council's People Plan and it is responsible for identifying priorities and outcomes to promote and improve the health and wellbeing of staff. The Group is fulfilling its main aims and objectives. It has brought together priorities from various staff surveys, under the People Promise and developed a number of local campaigns and actions to deliver them.
- 1.12 We concluded that the group comprises a good mix of staff from across the organisation and meets regularly. The role of Public Health colleagues is effective in enabling the group to deliver on its wellbeing agenda and this will continue to be an important part of the work of the group. Governance and accountability of the group is provided by regular reports and updates to the People Promise Project Board, informing the Executive Leadership Team of its work done and any emerging issues requiring corporate support.
- 1.13 One medium priority action was agreed relating to the need to ensure effective reporting and monitoring of all 8 of the sub-groups that have been set up to support different strands of the project.

### **Brighton and Hove Integrated Support Services – Reasonable Assurance**

- 1.14 Brighton & Hove Inclusion Support Service (BHISS) is a multi-disciplinary team, of approximately 100 staff, working with children and young people with special educational needs and disabilities (SEND) and their families. The service works through schools, including Academies and Free schools as well as other educational settings. The budget for the BHIS Service in 2018/19 is £3.5m.

- 1.15 The purpose of the audit was to provide assurance that effective budget management controls were in place alongside appropriate service monitoring arrangements for the delivery of the service to schools.
- 1.16 The audit found that the service has been developing a traded service model in order to provide advice, support and training to schools, whilst also balancing the budget of the service. At the time of our audit, BHISS was consulting with stakeholders to assess the viability of their proposals, part of which are to intended to address the uncertainty created if schools did not have 100% buy back to the service.
- 1.17 Whilst appropriate controls were generally found to be in place, actions for further improvement were agreed in relation to the following:
- implementing service changes to ensure a balanced budget.
  - implementing refinements to the service offer to individual schools to allow tailoring to their individual needs/ requirements.

#### **Seafront Investment Strategy (Strategic Risk number 23) – Reasonable Assurance**

- 1.18 This audit was a review of Strategic Risk 23, the narrative for which reads “Unable to develop an effective Investment Strategy for the Seafront”. The senior risk owner is the Executive Director, Environment, Economy & Communities.
- 1.19 The purpose of the audit was to provide assurance that the controls documented in the strategic risk register against this risk are operating as intended and to identify any gaps in the assurance mapping. Also that the risk is accurately reported in the strategic risk register, and that changes to controls and the mitigation of the risk is promptly captured and communicated.
- 1.20 Overall arrangements for the management and monitoring of this risk are considered effective, including the regular scrutiny of the risk by the Audit and Standards Committee. However, the audit found that there are some areas for improvement captured in two medium priority actions, both of which have been agreed with management. These are:
- The overall risks relating to the Waterfront and King Alfred projects should also be consolidated and monitored under SR23;
  - The work associated with the Madeira Terrace project should also be brought into this risk, including the reports of actions from inspection reports that are not taken forward because of cost or other reasons.

## **Street Lighting Procurement – This report does not have an assurance opinion**

- 1.21 Following an investigation into the re-procurement of the Council’s Street Lighting contract, an internal control report was produced in order to identify and highlight any control weaknesses which should be addressed, both within this service and for future procurements throughout the Council.
- 1.22 The report highlighted that although controls to manage conflicts of interests were in place, these controls were not complied with during the tender process. Scrutiny of declarations in the register of interests was not effective and management did not recognise the implications of the potential conflicts that had been declared. In such cases, management did not provide sufficient challenge or put adequate mitigations in place.
- 1.23 These shortfalls exposed the Council to a clear reputational risk and created an opportunity for fraud and corruption. To address these control weaknesses, the following actions have been agreed with corporate management:
- Increasing managers and officers awareness of their responsibilities under the Code of Conduct for Employees and under Contract Standing Orders. To include the exclusion of officers from procurement processes when conflicts of interest arise;
  - Providing additional guidance for managers on responding to conflicts of interest;
  - Improving all employees’ awareness of the requirement to protect commercially sensitive information during a procurement process;
  - Reviewing and updating the Council’s Whistleblowing Policy.
  - Reiterating the importance of purchasing controls that ensure that a check is made before payment that goods and services have been satisfactorily delivered.

## **Home Care – Partial Assurance**

- 1.24 The majority of the council’s home care services are delivered by external providers, with a budget of £8.3million in 2018/19. This is in addition to a smaller in-house service.
- 1.25 The purpose of the audit was to provide assurance that there is effective control over payments to third party providers, including an appropriate reconciliation of payments made to services provided and that data collection processes ensure that the billing of service users is accurate and timely. That the costs of in-house services are effectively controlled and that home care visits are timely and effectively monitored.
- 1.26 The review found that controls over the operation of the in-house service are effective and working effectively consistently. With regard to payments to external providers, a new IT system has caused payments problems which resulted in some payments in advance needing to be made and the service identifying instances of over claiming. In addition, the current provider

agreements do not reflect the new operating processes, thereby weakening contract management. As at TBM 03 (June 2018), there was a forecast overspend of just under £0.5m.

1.27 It is important to note that between the completion of the fieldwork and the finalisation of the audit report significant progress had been made by management with addressing implementation issues with the new IT system.

1.28 The following improvement actions were agreed to strengthen the control environment, all of which will be subject to a follow up by Internal Audit during 2019/20:

- Improving the validation of providers claims, including reasonableness checks and spot checks on providers' roistering schedules;
- Implementing reporting on key performance indicators to validate actual care delivery;
- Completing the reconciliation between the payments previously advanced and the actual hours worked/claimed;
- Redrafting agreements with service providers;
- Improving budget monitoring.

#### **EU Grant - SHINE**

1.29 This is an EU Interreg project that requires grant certification at least once a year. The full title of the project is Sustainable Housing Initiatives in Excluded Neighbourhoods. The total value of the project between 2016 and 2020 is approximately £367,000 (Grant expected £220,000).

1.30 No significant issues were identified in the grant certification.

#### **EU Grant – SOLARISE**

1.31 This is an EU Interreg project that requires grant certification at least once a year. The full title of the project is Solar Adoption Rise In the 2 Seas. The total value of the project between 2018 and 2021 is approximately £525,000 (Grant expected £315,000). This was the first claim on this project.

1.32 No significant issues were identified in the grant certification.

#### **EU Grant – BHCT**

1.33 This is again an EU Interreg project that requires grant certification at least once a year. The full title of the project is BioCultural Heritage Tourism. The total value of the project between 2018 to 2021 is approximately £463,000 (Grant expected £320,000). This was the first claim on this project.

1.34 No significant issues were identified in the grant certification.

### **Bevendean Primary School – Reasonable Assurance**

1.35 An audit of Bevendean Primary School was undertaken in accordance with the standard audit programme. This covers governance arrangements, financial planning, budget monitoring, purchasing, income and payroll. The audit also includes some limited testing on school funds and assets.

1.36 The review concluded reasonable assurance meaning that most controls were in place and operating as expected. Actions were agreed in the following areas:

- Signed Governing Body minutes and supporting information to be made available on site;
- Budget monitoring information to be strengthened;
- Declarations of interest to be obtained from all Governors;
- Agreeing a financial recovery plan to avoid an unmanageable deficit in 2020/21;
- Improving controls over the use of the schools purchasing card and the bank and payroll reconciliation processes;
- Enhancing controls relating to the income reconciliation processes for school trips and banking arrangements;
- Improvements to the school letting processes.

### **Hove Park Secondary School – Partial Assurance**

1.37 An audit of Hove Park Secondary School was undertaken in accordance with the standard audit programme. This covers governance arrangements, financial planning, budget monitoring, purchasing, income and payroll. The audit also includes some limited testing on school funds and assets.

1.38 The review concluded partial assurance meaning that there are weaknesses in the system of control. Actions were agreed in the following areas;

- Improvements to the schools scheme of delegation and declaration of interest processes;
- Improving budget monitoring information;
- Reviewing the 2019/20 budget and agreeing actions to reduce the expected deficit resulting from lower pupil numbers;
- Publishing information on pupil premium spending;
- Improving controls over the authorisation of expense and overtime claims and the review of purchasing card expenditure;

- Improving procurement arrangements and letting processes;
- Arranging for the School Fund to be audited.

## 2. Counter Fraud and Investigation Activities

### Proactive Counter Fraud Work

- 2.1 The Orbis IA structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality, along with specific specialisms.
- 2.2 A key strand of the structure was the formation of a counter fraud team that would deliver specialist fraud resource across the partnership.
- 2.3 Work to date has focussed on the following areas:

Priority	Progress to date
<b>Reactive investigations</b>	<p>The counter fraud team is responsible for assessing and evaluating fraud referrals received by each sovereign partner, and then leading on subsequent investigations. The team have implemented a coordinated approach to assessing and logging referrals and adopted consistent procedures for recording investigations.</p> <p>During the 9-month period to date, there have been several investigations across the partnership which have been resourced through sovereign audit teams supported by advice and direction from the counter fraud team.</p>
<b>NFI Exercise</b>	<p>The counter fraud team have taken on responsibility for the coordination and submission of datasets at each authority. The NFI Key Contacts are members of the counter fraud team to ensure a consistent approach is followed and good practice is shared across all partners.</p> <p>Results from the matching exercise were received in January 2019 and the counter fraud team will liaise with partner authorities to review, prioritise and investigate flagged matches.</p>
<b>Counter Fraud Policies</b>	<p>Each Orbis partner has in place a counter fraud strategy that sets out their commitment to preventing, detecting and deterring fraud. The counter fraud team will review the sovereign strategies and align with best practice to ensure a robust and consistent approach to tackling fraud. As a priority the Anti Money Laundering policies have been reviewed and updated to reflect</p>

	recent changes in legislation.
<b>Fraud Risk Assessments</b>	Fraud risk assessments have been consolidated to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified.
<b>Fraud Response Plans</b>	The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. These have been reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will form the basis of planned proactive work for 2019 and include an increased emphasis on data analytics.
<b>Fraud Awareness</b>	The team have been rolling out a programme of fraud awareness workshops to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures. Workshops have been delivered to several teams across the partners from a mix of services.

2.4 The following areas have been identified as priorities for the last quarter of the year:

- Roll out of proactive programmes and data analytics (shaped by Fraud Response Plans).
- Continue Fraud Awareness Workshops to raise awareness to risk of fraud and promote the counter fraud team.
- Launch of an Orbis-wide Fraud Survey.

### Summary of Completed Investigations

2.5 The outcomes at the end of quarter 3 are as follows: -

- Investigations have resulted in 17 Council properties being returned to the Council's stock making them available for people in genuine housing need (The target for the year is 20).
- Housing Benefits overpayments totalling £18,000 have been identified (year to date) so far as a result of investigations.
- Council tax reduction adjustments of £9,200 have also been identified this year, together with a further £21,000 in relation to Council tax account discounts (SPD's etc.).
- 30 Cases of Blue Badge fraud have been sent for prosecution and 100 people have attended a Community Resolution at the Hove Town Hall with the Police and Blue Badge Investigator for misuse of Blue Badges.
- One Right to Buy application has been stopped following the intervention of the Counter Fraud Team.

- Two concessionary travel passes have been cancelled for the year to date.
- An investigation was conducted following an allegation of irregularities in a contract letting process (Street Lighting). As a result, one member of staff was dismissed on the basis of conduct issues and an internal control report was issued to help avoid future repetition (see paragraphs 1.21 to 1.23 above).
- An investigation was carried out in relation to an alleged cash loss from council premises. Whilst it was not possible to prove the extent of any loss, one member of staff subsequently resigned.
- An allegation of favouritism within the Housing Service was subject to investigation. Whilst no evidence of any irregularity was identified, improvements to the declaration of interest process within the service have been implemented following the findings of the investigation.
- A salary overpayment was investigated in order establish the circumstances and to help ensure appropriate controls are in place to avoid future repetition.

### 3. Action Tracking

- 3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 3, 100% of high priority actions due had been implemented.

### 4 Amendments to the Audit Plan

- 4.1 In accordance with proper professional practice, the internal audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan during the last quarter:
- Street Lighting Procurement – Following a whistleblowing allegation an investigation was carried out into conflict of interest relating to an officer involved with the procurement process. No fraud or irregularity was detected but following the dismissal of the officer concerned in relation to conduct issues, an internal control report was produced, as summarised earlier in this report.
- 4.2 Through the same process, audits could either be removed or deferred from the audit plan and, where appropriate, considered for inclusion in the 2019/20 plan as part of the overall risk assessment completed during the annual audit planning process. At the end of quarter 3 we have identified that due to ongoing long-term sickness absence, two IT & Digital audits need to be removed from this year’s audit plan. These are;
- IT&D Project Management;
  - Mobile Device Migration.

4.3 It is intended that both of these audits are deferred, and will therefore being included in the 2019/20 audit plan.

## 5 Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set up agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	<b>G</b>	Approved by Audit Committee on 27 March 2018
	Annual Audit Report and Opinion	By end July	<b>G</b>	2018/19 Annual Report and Opinion approved by Audit Committee on 24 July 2018
	Customer Satisfaction Levels	90% satisfied	<b>G</b>	100% as at the end of quarter 1
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	<b>G</b>	On target. 69% of the plan complete as at the end of quarter 3.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	<b>G</b>	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	<b>G</b>	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	<b>G</b>	100% at end of quarter 3.

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	85%

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
<b>Minimal Assurance</b>	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

