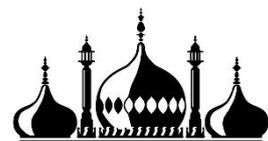


INTERNAL AUDIT ANNUAL REPORT & OPINION 2019/2020



**Brighton & Hove
City Council**

1. Internal Control and the Role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

1.3 Annually the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 The Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the departmental and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 In accordance with the audit plan for 2019/20, a programme of audits was carried out covering all Council departments and, in accordance with best practice, this programme was reviewed during the year and revised to reflect changes in risk and priority. This has included responding to and investigating allegations of fraud and other irregularities.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit and Standards Committee as part of our periodic internal audit progress reports. Whilst it did not make a material difference to our overall audit plan delivery for the year, and our subsequent annual audit opinion, the Coronavirus pandemic meant that a number of reviews in progress at the time were not completed to final report stage. Where appropriate, the findings from these audits were still reported to services for information, with a view to finalising the reports at a future date.

2.4 In other cases, planned work was suspended as a result of the Coronavirus pandemic and will therefore be considered for inclusion within our 2020/21 audit plan. Given the ongoing impact of the Coronavirus on our work, it is anticipated that the 2020/21 audit plan will be subject to a comprehensive review, taking into account new risks to the organisation arising from the crisis and previous work that we have been unable to complete. The outcome of this will be reported to the ELT and the Audit and Standards Committee once it has been completed.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable¹assurance that Brighton & Hove City Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2019 to 31 March 2020.

3.2 Further information on the basis of this opinion is provided below. Overall, whilst the majority of audit opinions issued in the year were generally positive, internal audit activities have identified a number of areas where the operation of internal controls has not been fully effective, as reflected by the two minimal assurance opinions and the number of partial assurance reports issued in the year.

3.3 Whilst the significant shortfalls in controls identified through investigations within the City Clean Service (see Annex B) are of concern and need to be addressed as a priority by management, this does not represent a significant deterioration compared with previous years. Consequently, the overall opinion remains unchanged from that issued for 2018/19.

3.4 Where improvements in controls are required as a result of any of our work, we have agreed appropriate remedial action with management.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

- All audit work completed during 2019/20, planned and unplanned;
- Follow up of actions from previous audits;
- Management's response to the findings and recommendations;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the Council's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service's performance.

4.2 No limitations have been placed on the scope of Internal Audit during 2019/20.

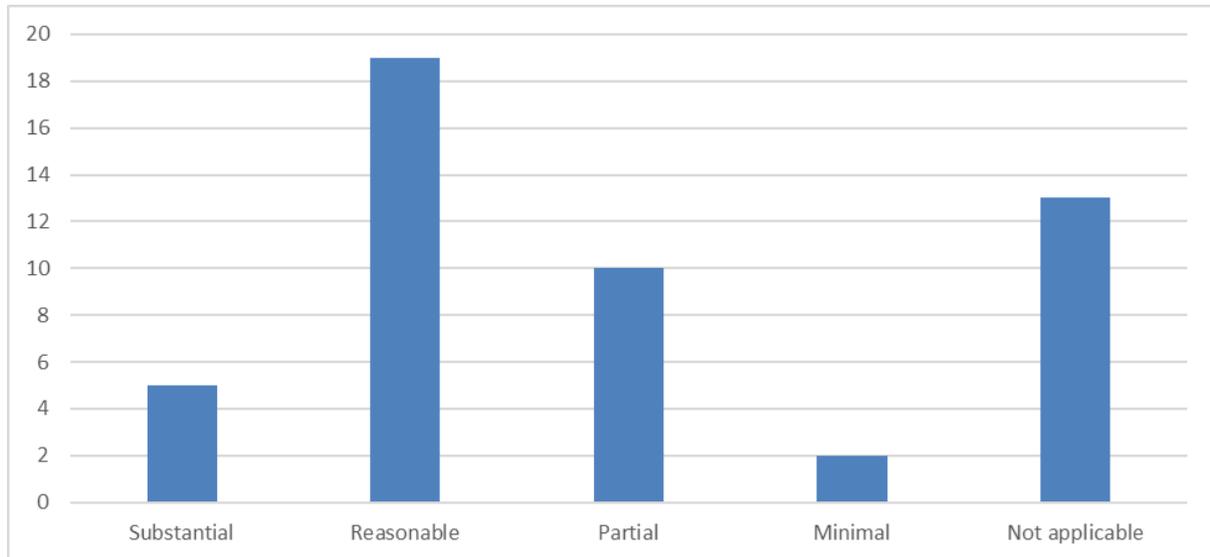
5. Key Internal Audit Issues for 2019/20

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council's Annual Governance Statement.

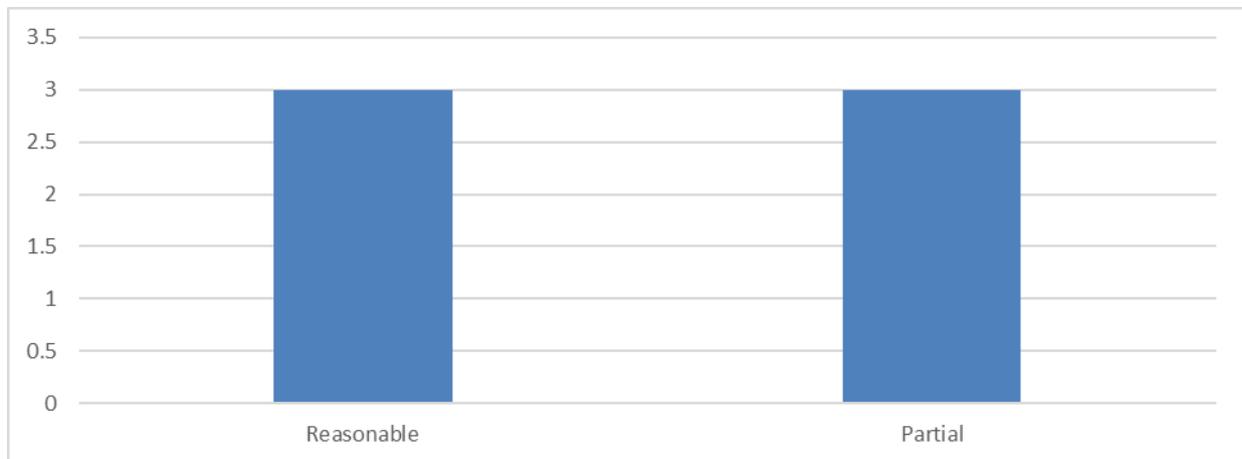
¹ This opinion is based on the activities set out in the paragraphs below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Council within a single year.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The following graphs provide a summary of the outcomes from all audits finalised during 2019/20:

Non-Schools Audit Opinions



Schools Audit Opinions



5.3 A full listing of all completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. Whilst the results of all audit work completed is reported to ELT and Audit and Standards Committee throughout the year, those reviews with minimal assurance have been summarised below for completeness:

- Home Care;

- Direct Payments (Draft report²).

5.4 In addition to the above, a total of 10 non-schools audits received partial assurance opinions within the year as follows:

- Agency Staff Contract;
- Surveillance Cameras;
- Cloud Computing (Draft report);
- Working Time Directive;
- Temporary Accommodation;
- Residents Parking Permits (Draft report);
- Debtors (Draft report);
- Extra Care Housing;
- Highways Maintenance (Draft report);
- Network Security (Draft report).

5.5 Whilst actions arising from these reviews will be followed up by Internal Audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control.

5.6 As at 31 March 2020, a total of seven planned reviews from 2019/20 remained in progress but had been paused as a result of the Coronavirus pandemic so that internal audit work would not impede service response to the emergency. These will be completed later in the financial year. There were a further 12 audits carried forward into 2020/21 where draft reports have been issued to clients. These are all listed in the table below:

Audit Title	Department	Status
Contract Standing Order Waivers	F&R	Suspended
City Clean (Commercial Waste)	EEC	Suspended
Patch Management	F&R	Suspended
NNDR	F&R	Suspended
Income Collection & Banking	F&R	Suspended
Disaster Planning & Recovery (Follow-up)	F&R	Suspended
Orbis Data Centre	F&R	Suspended
Housing and Council Tax Benefits	F&R	Draft Report
Payroll	F&R	Draft Report
Council Tax	F&R	Draft Report
Mobile Device Management	F&R	Draft Report
Budget Management	F&R	Draft Report
Housing Allocations	HNC	Draft Report
Cloud Computing	F&R	Draft Report
Residents Parking Permits	EEC	Draft Report
Debtors	F&R	Draft Report

² Due to the Coronavirus crisis a number of reports were issued in the final quarter as draft reports without us yet obtaining a formal response from management in terms of factual accuracy and agreeing actions arising. These reports are therefore subject to potential amendment once such responses are received.

Network Security	F&R	Draft Report
Direct Payments	HASC	Draft Report
Highways Maintenance	EEC	Draft Report

Key Financial Systems

5.7 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems, both corporate and departmental. Of those completed during 2019/20, all of these have resulted in either substantial or reasonable assurance being provided over the control environment, with the exception of the Debtors System . This replicates our conclusion on the Debtors System in the previous year, and therefore remains a concern. However, it was noted that some progress is being made to secure improvement, particular in relation to reducing the value of arrears. It was noted that the value of older debts had slightly decreased and that a review the Aged Debtor Reporting arrangements has begun. In addition, a Corporate Debt Campaign Team was in the process at the time of audit.

Other Internal Audit Activity

5.8 During 2019/20, internal audit have continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. These include:

- Orbis Customer Board;
- Business Intelligence Group;
- Corporate Risk Assurance Group;
- Whistleblowing Co-ordination Meetings;
- Information Governance Board.

5.9 As well as actively contributing to, and advising these groups, we utilise the intelligence gained from the discussions to inform our own current and future work programmes to help ensure our work continues to focus on the most important risk areas.

Anti-Fraud and Corruption

5.10 During 2019/20, the Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the Orbis Partnership.

5.11 The team logged 21 allegations under the Council's Anti-Fraud and Corruption Strategy, with cases identified through the Council's confidential reporting hotline, data matching or notifications from departments. As a result of the allegations, 10 investigations were undertaken, with the remainder being referred to local management, another local authority or assessed as requiring no further action (n.b. these numbers exclude allegations and investigations of housing tenancy, council tax and housing benefit fraud).

5.12 The following provides a summary of the investigation activity undertaken by Orbis Internal Audit in the last 12 months:

- A number of investigations were undertaken in relation to allegations and other intelligence received concerning officer conduct at City Clean. At the time of reporting, this had resulted in the resignation of one employee and disciplinary actions against a second employee that resulted in a formal warning being given. Further investigations are ongoing. A number referrals have also been made to Sussex Police. Arrests, searches and interviews have been conducted and criminal investigations are continuing. In addition to our internal investigation work, we have also issued a comprehensive internal control report detailing a range of underlying control issues within City Clean and the actions agreed with management to address these. This is an area where further follow up work will be carried out by Internal Audit in the year ahead;
- In another part of the Council an investigation was conducted following an allegation that an employee may have been undertaking private work in conflict with his role as a council officer. Following the conclusion of the investigation, it was found that the additional work undertaken by the employee was not in private paid for capacity but in an attempt to help residents. Following the investigation, the employee was issued with a letter of expectation clarifying professional boundaries;
- Internal Audit were approached to provide support on a Direct Payment case where it was alleged that the recipient was mispending their direct payment. Whilst no evidence of impropriety could be proven, we were able to provide support to the service to strengthen the direct payment agreement template and improve procedures in place for recovering overpayments;
- Following reports of cash loss at a care home, Internal Audit provided advice on security and improving controls over cash handling;
- Following receipt of concerns over card security expressed by a member of public, Internal Audit reviewed the processing and storage of card details at the City Clean Depot. The review did not identify any issues with the processing of card payments but did identify areas where compliance with payment card industry (PCI) standards could be improved. Appropriate remedial action has been agreed with management;
- Advice and support was provided to Adult Social Care on individual cases where concerns have been expressed over the potential deprivation of capital. This has also included recommendations to strengthen the assessment process;
- Support was provided to an HR investigation following concerns that an employee had been convicted of benefit fraud whilst being employed by the Council in a role providing welfare advice and assistance to those submitting benefit claims. Following a disciplinary hearing the individual was dismissed from their role with the Council;
- Overall four investigations remain ongoing at the time of writing this report.

5.13 In addition to the above, a key focus area remains housing tenancy fraud and council tax discounts. Tenancy fraud investigations resulted in 10 council properties being returned to the Council's stock in the year, thereby making them available for people in genuine housing need. In addition, four tenants were removed from the housing waiting list as a result of investigations. Counter fraud work also identified council tax reduction adjustments of £800, together with a further £5,500 in respect of reductions to council tax discounts. Housing and other investigations identified £15,000 of housing benefit overpayments.

5.14 Any internal control weaknesses identified during our investigation work are reported to management and actions for improvement are agreed. This work is also used to inform future internal audit activity.

5.15 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff.

5.16 Progress over the last 12 months is outlined below:

Priority	Progress to date
Reactive investigations	<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 12 month period to date, there have been several investigations across the partnership which have been resourced through a mixture of the Counter Fraud Team and sovereign audit teams. The Counter Fraud Team continue to provide advice and direction to sovereign teams as well as other departments across the partnership.</p>
NFI Exercise	<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 latest matching exercise were received in Spring 2019 and the Counter Fraud Team is liaising with internal departments and partner authorities to review, prioritise and investigate flagged matches. Results included savings of £42,519.14 being identified in respect of clients who had passed away but for whom payments were still being made for residential care. The data matching has also identified further overpayments totalling £14,233.62 Housing Benefit and £1,350.65 Council Tax Reduction as well as savings for having people removed from the Housing Waiting List.</p> <p>The Counter Fraud Team have undertaken an additional Single Person Discount to Electoral Roll exercise resulting in further savings of £4,571.92 Single Person Discounts being removed from council tax accounts.</p>
Counter Fraud Policies	<p>Each Orbis partner has in place a Counter Fraud Team that sets out their commitment to preventing, detecting and deterring fraud. The Counter Fraud Team have reviewed the sovereign strategies to ensure there is a consistent and robust approach to tackling fraud.</p>
Fraud Risk Assessments	<p>Fraud risk assessments have been consolidated to ensure that the current fraud</p>

Priority	Progress to date
	threat has been considered and mitigating actions identified. The Fraud Risk Assessment is continually reviewed.
Fraud Response Plans	The Fraud Response Plans take into consideration the results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. These include an increased emphasis on data analytics.
Fraud Awareness	<p>The team has launched refreshed eLearning content to provide engaging and current material available to the whole organisation. This is now available through the Council's eLearning portal and is available in conjunction with fraud awareness workshops to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures.</p> <p>An awareness campaign was run in November 2019 to coincide with Internal Fraud Awareness Week in November and promote the fraud eLearning.</p> <p>Fraud awareness workshops were delivered to school governors and fraud bulletins highlighting potential fraud risks have been provided to schools.</p> <p>Regular fraud alerts have been provided to departments including both banking and schools.</p>

Amendments to the Audit Plan

5.17 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews were added to the original audit plan during the year:

- E-recruitment Project Assurance;
- Logotech Project Assurance;
- Home to School Transport;
- Valley Gardens (Phase 3);
- Contract Standing Order Waivers;
- Home Care (Follow-up);
- Mobile Devices Management;
- Surveillance Cameras;
- Working Time Directive;
- HASC Temporary Accommodation;
- Purchasing Card System;
- ASC Income (Follow-up);
- City Clean Control Report.

5.18 In order to allow these additional audits to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been made on the basis of risk

prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- IT & Digital Projects;
- Major Capital Projects (Brighton Centre/ Black Rock);
- Royal Pavilion;
- New E-Pay System;
- Employment Support;
- Integration of health and social care services. (Strategic Risk No. 20).

6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2019/20, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self-assessment in 2020.

- Purpose, authority and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of the SWAP review and our latest self-assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our quality assurance and improvement plan.

Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post

audit questionnaires, discussions with key stakeholders throughout the year and annual consultation meetings with Chief Officers.

6.5 Significantly, we have completed 96% of the 2019/20 audit plan, exceeding our target of 90%. As reported in 5.6 above, a small number of outstanding reviews were nearing completion at year end and, due to the impact of the COVID-19 crisis there are a larger number of reports than usual still in draft status at the year end. Where this is the case this is noted against the title of the audit in this report.

6.6 Internal Audit will continue to liaise with the Council's external auditors (Grant Thornton) to ensure that the Council obtains maximum value from the combined audit resources available.

6.7 In addition to this annual summary, ELT and the Audit and Governance Committee will continue to receive performance information on Internal Audit throughout the year as part of our quarterly progress reports and corporate performance monitoring arrangements.

Internal Audit Performance Indicators 2019/20

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit & Standards Committee on 12 March 2019.
	Annual Audit Report and Opinion	By end July	G	Approved by Audit & Standards Committee on 23 July 2019.
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	96%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings Quarter 4 2019/20. Internal Self-Assessment completed
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	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	G	95%
Our staff	Professionally Qualified/Accredited	80%	G	93%

Summary of Opinions for Internal Audit Reports Issued During 2019/20

Substantial Assurance:*(Explanation of assurance levels provided at the bottom of this document)*

Audit Title	Department
On-Street and Off-Street Car Parking	EEC
Main Accounting System	F&R
Housing and Council Tax Benefits (Draft report)	F&R
Care Payments	F&R
Payroll (Draft report)	F&R

Reasonable Assurance:

Audit Title	Department
Contract Collusion	F&R
Joint Commissioning	FCL & HASC
West Hove Infants School	FCL
Cottesmore St Mary's School	FCL
Woodingdean Primary School	FCL
Grants to community and voluntary organisations	HNC
Brighton Centre	EEC
Treasury Management	F&R
Purchasing Card System	F&R
Creditors	F&R
Council Tax (Draft Report)	F&R
Care Leavers	FCL
Public Health	HASC
ASC Income (Follow-up)	HASC
ICT Compliance Framework	F&R
Cyber Security	F&R
BACS Payment Arrangements	F&R
Housing Rents	HNC
HASC Temporary Accommodation	HASC
Mobile Device Management (Draft report)	F&R
Budget Management (Draft report)	F&R
Housing Allocations (Draft report)	HNC

Partial Assurance:

Audit Title	Department
Cottesmore St Mary's School	FCL
Homewood College (Special School)	FCL
Agency Staff Contract	F&R
Surveillance Cameras	F&R
Cloud Computing (Draft report)	F&R
Working Time Directive	F&R
Temporary Accommodation	HNC
Residents Parking Permits (Draft report)	EEC
Debtors (Draft report)	F&R
Extra Care Housing	HASC
Dorothy Stringer School	FCL
Highways Maintenance (Draft Report)	EEC
Network Security (Draft report)	F&R

Minimal Assurance:

Audit Title	Department
Home Care	HASC
Direct Payments (Draft report)	HASC

Other Audit Activity Undertaken During 2019/20 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
EU Grant - Sustainable Housing Initiatives in Excluded Neighbourhoods (SHINE)	HNC
EU Grant – Solarise	HNC
EU Grant- Providing Access to Childcare and Employment (PACE)	FCL
EU Grant - Shaping Climate change Adaptive PlacEs (SCAPE)	EEC
Transport Capital Grants	EEC
BioCultural Heritage Tourism project - EU Interreg Grant. (Addition to plan)	EEC
City Clean Control Report	EEC
Housing Repairs Insourcing	HNC
Housing Tenancy Fraud	HNC
E-Recruitment System Project Assurance	F&R
Logotech (Treasury Management System) Upgrade	F&R
Home to School Transport (Audit and Standards Committee request)	FCL
Valley Gardens Phase 3 (Audit and Standards Committee Request)	EEC

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	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.
Minimal Assurance	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.

