

Subject:	Internal Audit Progress Report 2013/14		
Date of Meeting:	25 March 2014		
Report of:	Executive Director of Finance & Resources		
Contact Officer:	Name:	Mark Dallen, Acting Head of Internal Audit	Tel: 29-1314
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Ward(s) affected:	All		

FOR GENERAL RELEASE**1. SUMMARY AND POLICY CONTEXT:**

- 1.1 The purpose of this report is to update Members of the progress made against the Internal Audit Plan 2013/14, including outcomes of specific audit reviews completed and tracking of the implementation of recommendations.
- 1.2 The Audit and Standards Committee has a role in monitoring the activity and outcomes of internal audit work against the plan and receiving regular progress reports.
- 1.3 The report includes information on the work undertaken by the Corporate Fraud Team.

2. RECOMMENDATIONS:

- 2.1 That the Committee notes the progress made in delivering the Annual Internal Audit Plan 2013/14.

3. BACKGROUND INFORMATION:

- 3.1 The Accounts and Audit (England) Regulations 2011 require the Council to 'maintain an adequate and effective system for internal control in accordance with proper practices.' Proper practice is defined by Public Sector Internal Audit Standards.
- 3.2 The Internal Audit Strategy and Plan provides the framework to deliver this service ensuring the most appropriate use of internal audit resources to provide assurance on the Council's control environment and management of risks.
- 3.3 The Audit Plan sets out an annual schedule of those systems including core financial systems, governance frameworks, IT audits and other key operational systems.

3.4 Amendments to the plan are approved by the Executive Director of Finance and Resources and are reported as part of this monitoring report.

4. PROGRESS AGAINST THE AUDIT PLAN:

4.1 A total of 39 reports now been finalised for the year to date. The 9 finalised since the last meeting are:

Final Audit Reports	Assurance Opinion*	Number of Recommendations and Priority
Risk Management	Substantial	2 Low Priority Recommendations only
Housing Estates Regeneration Programme	Substantial	1 x Medium
Projects and Programme Management (PMO)	Substantial	2 x Medium
Section 75 Agreements	Substantial	1 x Medium
Establishment Control	Limited	1 x High 3 x Medium
Pupil Places	Substantial	None
Libraries	Reasonable	5 x Medium
Management of VAT	Substantial	1 x Medium
Debtors - Cancelling Accounts	Reasonable	8 x Medium

Note.* A definition of the Assurance Opinions is provided in Appendix 1.

4.2 In addition there are 23 reviews where draft reports have been issued and are in the process of being finalised.

4.3 The total of draft and final reports is 62 at this point of the year which represents 56% of the approved audit plan. Another 16 audit reviews are in progress (77%).

4.4 A number of different resourcing issues have impacted on the service during the year including high levels of sickness which is being managed in accordance with the council's procedures and the recent resignation of the Head of Internal Audit. In addition there have been significant additional resource pressures to support the council's arrangements in relation to fraud and corruption. Problems have also been experienced in resourcing the IT element of the agreed audit plan predominantly provided by an external contractor Mazars (formally Deloitte) which are still in the process of being resolved.

4.5 A more detailed breakdown of the use of audit resources and completion of each elements of the audit plan will be given at the year end.

4.6 Progress against the plan has been carefully monitored with adjustments being made to ensure the highest risk areas are prioritised and that satisfactory coverage is provided.

5. LIMITED ASSURANCE REPORTS:

5.1 One Limited assurance audit report has been issued since last reported. This is in respect of an audit of Establishment Control.

- 5.2 Establishment Control is a new corporate process that ensures all changes to employee contracts affecting staffing budgets are tracked and controlled. The purpose of the process is to improve control and information on staffing budgets for both services and the organisation as a whole.
- 5.3 The audit found that although there is regular reconciliation between the approved employee establishment and the budgets within the General Ledger there remain major difference between the two systems. The level of difference between the two systems is of such significance that we considered the overall Establishment Control 'change' process to be ineffective and in need of urgent review.

6. CHANGES TO THE APPROVED AUDIT PLAN:

- 6.1 An unplanned additional audit was undertaken on Debtors - Cancelling of Accounts.
- 6.2 The review was requested by the Executive Director of Finance & Resources and focused on those parts of the council's main debtor processes relating to the cancelling of debtor invoices, including the effectiveness of corporate procedures and policies surrounding these.
- 6.3 Controls were examined in relation to the risk that valid debts are cancelled when further action could have been taken or formal debt write-off procedures should have been followed instead of cancellation.
- 6.4 The audit report concluded Reasonable Assurance and eight recommendations were made. These were mainly with regard to the production, clarification and agreement of procedures. There is also the need to clarify and agree delegated authorities in the process and for improved communication between debt collection officers and individual budget holders.

7. COPORATE FRAUD TEAM WORK:

- 7.1 Outcomes for housing benefit fraud investigation for the year to date are:-

Outcome	Year to Date	This Period
Prosecutions	33	3
Cautions	7	0
Administration Penalties	25	4
Overpayments*	£887,000	£162,000

Note. *Figure now excludes cases under investigation but includes cases awaiting prosecution

- 7.2 With regard to housing tenancy fraud the position is as follows:-

Outcome	Year to Date	This Period
Housing Stock returned	6	1
Housing Association properties	1	0

National Fraud Initiative Update

- 7.3 The exercise has now resulted in £477,200 in overpayments being identified for the year to date.” This figure is split as follows creditors £1,600 Private residential Care Home Payments £15,600 and Housing Benefits £460,000.

8. IMPLEMENTATION OF RECOMMENDATIONS:

- 8.1 For the year to date we have now followed-up on a total of 139 recommendations. The results of this exercise are summarised below.

Number of Recommendations Followed Up (Year to Date)	Implemented*	% Compliance
139	105	75%

* Includes both fully implemented and part implemented

- 8.2 Where recommendations have not been implemented further action is being considered on a case by case basis.

9. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 9.1 It is expected that the Internal Audit Plan for 2013/14 will be delivered within existing budgetary resources. Progress against the Annual Internal Audit Plan and action taken in line with recommendations support the robustness and resilience of the councils practices and procedures and support the councils overall financial position.

Finance Officer Consulted: James Hengeveld

Date: 13/03/14

Legal Implications:

- 9.2 Regulation 6 of The Accounts & Audit Regulations 2011 requires the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. It is a legitimate part of the Audit & Standards Committee’s role to review the level of work completed and planned by internal audit.

Lawyer Consulted: Abraham Ghebre-Ghiorghis

Date: 13/03/14

Equalities Implications:

- 9.3 There are no direct equalities implications arising directly from this report

Sustainability Implications:

- 9.4 There are no direct sustainability implications arising from this report.

Crime & Disorder Implications:

- 9.5 There no direct implications for the prevention of crime and disorder arising from this report.

Risk and Opportunity Management Implications:

- 9.6 The Internal Audit Plan and its outcome is a key part of the Council's risk management process. The internal audit planning methodology is based on risk assessments that include the use of the council's risk registers.

Corporate / Citywide Implications:

- 9.7 Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

SUPPORTING DOCUMENTATION

Appendices:

1. Internal Audit Report Assurance Levels: Definitions

Background Documents:

1. Internal Audit Plan 2013/14
2. Public Sector Internal Audit Standards
3. Accounts and Audit Regulations 2011

APPENDIX 1.

Internal Audit Report Assurance Opinions: Definitions

FULL	There is a sound system of control designed to achieve the system and service objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.
SUBSTANTIAL	No significant improvements are required. Whilst there is a basically sound system of control (i.e. key controls), there are weaknesses, which put some of the system/service objectives at risk, and/or there is evidence that the level on non-compliance with some of the controls may put some of the system objectives at risk and result in possible loss or material error. Opportunities to strengthen control still exist.
REASONABLE	The audit has identified some scope for improvement of existing arrangements. Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and result in residual risk. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Council.
LIMITED	Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve control or compliance will lead to an increased risk of loss or damage to the Council. Not all major risks are identified and/or being managed effectively.
NO	Control is generally very weak or non-existent, leaving the system open to significant error or abuse and high level of residual risk to the Council. A high number of key risks remain unidentified and/or unmanaged.