

<b>Subject:</b>	<b>Internal Audit Progress Report 2014/15</b>		
<b>Date of Meeting:</b>	<b>23 September 2014</b>		
<b>Report of:</b>	<b>Executive Director of Finance and Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Mark Dallen, Acting Head of Internal Audit</b>	<b>Tel: 29-1314</b>
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<b>Ward(s) affected:</b>	<b>All</b>		

**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 2014/15, 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 A separate report is on the agenda for this meeting in relation to the Corporate Fraud Team work.

**2. RECOMMENDATIONS:**

- 2.1 That the Committee notes the progress made in delivering the Annual Internal Audit Plan 2014/15.

**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 2014/15 AUDIT PLAN:**

4.1 A total of 10 reports now been finalised for the year to date. These are detailed in the table below:

<b>Final Audit Reports</b>	<b>Assurance Opinion*</b>	<b>Number of Recommendations and Priority</b>
Highways Minor Works (Follow-up)	Limited Assurance	1 x High 4 x Medium
Brighton Centre - Ticketing and Catering	Reasonable Assurance	5 x Medium
School Meals Contract	Substantial Assurance	2 x Medium
Information and Data Sharing	Reasonable Assurance	2 x Medium
Mobile & Portable Devices	Reasonable Assurance	2 x Medium
Periodic Payments	Reasonable Assurance	6 x Medium
Bailiff Services	Reasonable Assurance	2 x Medium
Blue Badges	Reasonable Assurance	1x High Priority 8 x Medium Priority 5 x Low Priority
Grant Certification Work	Not Applicable	Not Applicable
Adoption Reform Grant 2013/14		
Stronger Families Stronger Communities Grant – June 2014		
Premises Security (Schools)	Reasonable Assurance	3 x Medium

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

4.2 In addition there are 7 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 17 at this point of the year which represents 19% of the approved audit plan. Another 26 audit reviews are allocated and/or in progress.

#### 5. **LIMITED ASSURANCE REPORTS:**

5.1 One Limited assurance audit report has been issued for the year to date. This is the audit of the Highways Minor Works Contract.

5.2 The primary reason for the Limited Assurance opinion relates to payment controls. In a previous audit we identified a large overpayment arising from this

control weakness. The follow-up review provided some assurance of an improvement on controls but additional improvements are still required.

- 5.3 Two recommendations were made relating to the performance management of this contract.

## **6. CHANGES TO THE APPROVED AUDIT PLAN:**

### Addition: Whistleblowing Allegation: Related Party Declaration

- 6.1 We are continuing to provide resources to support work arising from the Whistleblowing allegation relating to a temporary accommodation supplier. This work incorporated undertaking additional control assurance work including work specifically requested to support the 2013/14 work of external audit. We have also been supporting internal management processes as well as Sussex Police.

### Addition: Cash Collection Contract

- 6.2 An unplanned review requested by the Executive Director of Finance & Resources is being undertaken on the termination of the previous cash collection contract and the emergency award of the contract to a new provider. This work is ongoing and involves obtaining assurance over the arrangements to secure all outstanding monies from the outgoing contractor and that an effective service was provided immediately before and after contract handover.

### Addition: VFM Phase 4 Project – Third Party Spend

- 6.3 Internal Audit has been requested to assist with the VFM Phase 4 Project by providing contract and procurement audit expertise. As part of this a contract auditor is being recruited on a temporary basis with additional input from a Principal Auditor. The contract audit is being funded from a programme budget but the Principal Auditor time comes from existing resources. This work is being aligned as far as possible to agreed Internal Audit priorities.

### Deletions to Audit Plan

- 6.4 Contingencies have been built into the 2014/15 audit plan but it is likely that the additional work detailed in paragraphs 6.1 to 6.3 will exceed these contingencies. Proposed deletions to the audit plan (if necessary) will be brought before the November meeting of this Committee.

## **7. CORPORATE FRAUD TEAM WORK:**

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

<b>Outcome</b>	<b>Year to Date</b>	<b>This Period</b>
Prosecutions	<b>16</b>	<b>16</b>
Cautions	<b>5</b>	<b>5</b>
Administration Penalties	<b>11</b>	<b>11</b>

Overpayments	£274,900*	£274,900*
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Note. \*Figure excludes cases under investigation but includes cases awaiting prosecution

7.2 This will be the last regular reporting of the housing benefit investigation outcomes as this function is transferring to the DWP from the 1<sup>st</sup> October 2014. Specific information will be reported when relevant.

7.3 With regard to housing tenancy fraud the position is as follows;-

Outcome	Year to Date	This Period
Housing Stock returned	5	5
Housing Association properties	1	1

#### National Fraud Initiative Update

7.4 The service is currently co-ordinating the preparation of data files for submission to the residual Audit Commission as part of the 2014/15 National Fraud Initiative Data matching exercise.

### **8. IMPLEMENTATION OF RECOMMENDATIONS:**

8.1 For the year to date we have now followed-up on a total of 80 recommendations. The results of this exercise are summarised below.

Number of Recommendations Followed Up (Year to Date)	Implemented*	% Compliance
<b>80</b>	<b>77</b>	<b>96%</b>

\* 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 2014/15 will be delivered within existing budgetary resources subject to the agreement of any proposed audit plan deletions described in paragraph 6.4. 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: 10/09/2014*

#### 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: Oliver Dixon*

*Date: 08/09/14*

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 2014/15
2. Public Sector Internal Audit Standards
3. Accounts and Audit Regulations 2011

## APPENDIX 1.

### Internal Audit Report Assurance Opinions: Definitions

<b>FULL</b>	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.
<b>SUBSTANTIAL</b>	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.
<b>REASONABLE</b>	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.
<b>LIMITED</b>	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.
<b>NO</b>	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.