

Subject: Internal Audit Progress Report 2014/15**Date of Meeting: 10 March 2015****Report of: Head of Internal Audit****Contact Name: Mark Dallen Audit Manager Tel 291314**
Officer:**Email: mark.dallen@brighton-hove.gov.uk****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 2014/15. It includes 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 now includes an update on the work of the Corporate Fraud Team.

2. RECOMMENDATIONS:

- 2.1 That the Committee notes the progress made in delivering the Annual Internal Audit Plan 2014/15 and corporate fraud outcomes achieved.

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 39 reports have now been finalised for the year to date with the following reports finalised since the Audit and Standards Committee in January 2015.

Audit Title	Opinion	Recommendations
Children's Services - Procurement	Limited	4 x High, 2 x Medium
Direct Payments	Limited	5 x High, 1 x Medium
Employee Overpayments	Limited	2 x High, 5 x Medium
Housing and Council Tax Reduction	Limited	3 x High, 6 x Medium
Property Legal Compliance	Reasonable	4 x Medium
Records Management Policy	Reasonable	11 x Medium
Software Licensing	Reasonable	1 x High, 3 x Medium
Transport Workshop Follow-up	Limited	2 x High, 3 x Medium
Discretionary funds (Welfare Reform)	Substantial	1 x Low only

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

- 4.2 In addition there are 18 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 57 at this point of the year which represents 63% of the approved audit plan. Another 25 audit reviews are allocated and/or in progress. It is expected that at least 90% of the audit plan will be delivered.

5. LIMITED ASSURANCE REPORTS:

- 5.1 The following limited assurance reports have finalised since the Audit and Standards Committee Meeting in January 2015:
- Children's Services procurement
 - Direct Payments
 - Employee overpayments
 - Housing Benefits and Council Tax Reduction
 - Transport Workshop follow-up.
- 5.2 The Children's Services procurement audit was focused on a sample of high value procurements in this Directorate to ensure compliance with Contract Standing Order controls. We identified control issues including that key documentation could not be located as well as insufficient evidence of market testing, including obtaining quotes and tenders.

- 5.3 A meeting was recently held with the Director of Children's Services and Legal Services to agree a way forward and the recommendations have been agreed.
- 5.4 The key findings from the Direct Payments audit included that:
- Direct Payment Contracts signed by the Service User are not always on file.
 - Controls are not always operating to ensure payments are being made in accordance with the Service Users' agreed Package of care.
 - Monitoring of client contributions is not happening on a regular basis.
 - Regular reviews of the Service Users' needs are not always happening.
 - Insufficient monitoring of clients dedicated bank account statements.
- 5.5 All of the recommendations have been agreed with prompt deadlines to be actioned.
- 5.6 With regard to the audit of Employee Overpayments it was found that there were historic shortfalls in the investigation and recovery of old salary overpayments. We found that new procedures to improve recovery were introduced in August 2014 and that these are already reducing the occurrence of payroll overpayments and reducing the time taking to identify errors and put corrective action for recovery in place. We found that overpayments are not being recovered in a timely manner.
- 5.7 A commitment has been given to action all of the recommendations made by the end of March 2015.
- 5.8 Our annual audit of Housing Benefits and Council Tax Reduction also concluded Limited. Key findings included that:
- Errors were found with some individual claims sampled
 - PAYE and Self-employed claims are not subject to regular review
 - The percentage data quality checks have not been carried out after October 2014 because of other service demands
 - Speed of processing performance indicators have deteriorated this year.
- 5.9 Two meetings have been held with the Head of Revenues and Benefits to discuss in detail our findings and the recommendations. Also an in year (interim) audit will be carried out in 2015/16 focussing on the accuracy of claim processing.
- 5.10 A follow-up audit was undertaken on the Transport Workshop. This was a previous limited assurance report. We were pleased to note that half of the recommendations previously made had been fully implemented, and another partially implemented. Nevertheless there are four recommendations that remained outstanding, two of which are High Priority. Key findings were:
- There is still no stock inventory system in operation within the Workshop
 - No manual stock take has been undertaken in the year since the previous audit
 - Spend on Vehicles - Repairs & Maintenance is significantly and consistently in excess of the budget
 - Contracts are still not in place with some high spend external suppliers.

5.11 A meeting has been held with the Head of City Clean and City Parks with a proposed programme of additional audits in this service area. The recommendations made have all been agreed.

6. CHANGES TO THE APPROVED AUDIT PLAN:

6.1 There were no changes to the audit plan for this period.

7. COUNTER FRAUD WORK:

Housing Tenancy Fraud

7.1 Housing Tenancy fraud work is primarily focused on the identification and investigation of council properties where there is evidence that the tenant has illegally sublet the property. The primary purpose of the investigation is to return the property to the council so that the property can be re-let to a legitimate tenant on the council's housing waiting list. Where appropriate the council will also seek to prosecute using its powers under the Prevention of Social Housing Fraud Act 2013.

7.2 For 2014/15 (year to date) investigations have resulted in a total of 14 properties being returned to the council plus one to a housing association in the City. Outcomes are summarised in the table below.

Outcome	Achieved since last Committee Report	Year to Date
Housing Stock returned	3	13
Housing Association properties	-	1
Total	-	14

National Fraud Initiative Data (NFI) Matches

7.3 The data matches from the 2014 NFI has been received by the council on 29 January 2015. This has identified over 19,000 matches with 3,104 highlighted as "recommended". The Corporate Fraud Team is currently working through the matches and is working with officers from parking services, finance and other authorities. At this early stage savings currently stand at £38,000.

7.4 As per previous years there are a significant number of reports provided to assist in the detection of Housing Benefit Fraud. The investigation of these data matches is no longer the responsibility of the Corporate Fraud Team but require effective co-ordination and communication between this team, the council's

Housing Benefits Service and the DWP Single Fraud Investigation Service. The Corporate Fraud Team is still dealing with historic benefit fraud cases and during January secured guilty plea covering 20 charges.

Proactive Initiatives

- 7.5 The Counter Fraud Fund project to tackle blue badge misuse in partnership with Sussex Police and East Sussex County Council has resulted in 52 blue badges being retained by officers for further investigation within the first 2 months. To date seventeen people are due to complete a Community Resolution Order for misuse. This will involve attendance at a venue to watch a video made by local disabled residents about how this issue affects them
- 7.6 Twelve people have received warning notices for lower level offences. Two stolen blue badges have been recovered which are being dealt with by the police. The council has also carried out one successful prosecution for Blue Badge misuse
- 7.7 The Corporate Fraud Team has developed an e-learning tool to promote understanding of the impact of fraud and corruption on the Council and its citizens, the Council's zero-tolerance to fraud and corruption and how to report suspicions. This will be launched as a wider communications strategy on fraud and corruption and in close consultation with the Head of Legal and Democratic Services.

8. IMPLEMENTATION OF RECOMMENDATIONS:

- 8.1 We have followed up on a total of 57 recommendations since the last report to this Committee. For the year to date we have now followed-up on a total of 197 recommendations.

Number of Recommendations Followed Up (Year to Date)	Implemented*	% Compliance
197	165	84%

* Includes both fully implemented and part implemented

- 8.2 Escalation arrangements for high priority recommendation now include reporting the detail of these recommendations to ELT. As at reporting on the 11 February 2015 there were 44 high priority recommendations outstanding. The majority of these are scheduled for follow-up by internal audit before the 2014/15 year end or in the first quarter of 2015/16.
- 8.3 After follow-up our work has identified 6 High Priority recommendations which have not yet been implemented. These are:

Audit	Recommendation	Comments
Parks Service	Management should give further consideration to the consolidation of Parks Service procurements where expenditure over several years exceeds the £75,000 CSO threshold. Those placing and authorising orders need to be aware of and comply with the CSO process.	Additional follow-up is scheduled
Declarations of Interest, Gifts & Hospitality	The visibility of corporate requirements with regard to declarations of interest, gifts and hospitality should be improved on the Wave.	Actions are being planned as part of improvement of Corporate Governance.
Transport Workshop (City Clean)	Produce and maintain a list of contracts in place with external suppliers including those for parts and consumables. The list should detail the contract length, total value and what is supplied.	Additional follow-up is scheduled
Transport Workshop (City Clean)	A stock inventory system should be implemented with periodic evidenced stock checks.	Additional follow-up is scheduled
Financial Director Treasury Management Application	The bank should be contacted to request a change to the transaction analysis screens to ensure that system administrators can see all amendments to permissions made (not just changes they have made).	System being replaced as part of change in Council's bank. Equivalent control in new system will be examined
Financial Director Treasury Management Application	Processes should be implemented that prevent system administrators on "Financial Director" changing their own access privileges.	System being replaced as part of change in Council's bank. Equivalent control in new system will be examined

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. 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: 23/02/15

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: 18/2/2015

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

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.

