

Internal Audit and Counter Fraud Quarter 2 Progress Report 2018/19

CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

1. Summary of Completed Audits

Personal Service Companies (IR35) – Reasonable Assurance

- 1.1 From April 2017 there were changes to the employment intermediaries legislation, known as IR35 which strengthened the existing requirements.
- 1.2 The changes related to workers in the public sector who choose to operate through a limited company vehicle, such as a personal service company. Where IR35 applies, these off-payroll workers are required to pay employment taxes in a similar way to employees.
- 1.3 The objective of this audit was to ensure that the Council is complying with IR35 legislation and its own internal policy position.
- 1.4 The audit found that the Council has responded pro-actively to the changes made to IR35 legislation, introducing a number of key controls to manage the risks associated with the use of personal service companies and consultants. There is a clear policy position, which has been well communicated to all key stakeholders and processes are in place to determine the correct tax status for workers operating via a personal service company at the point of engagement with the organisation.
- 1.5 Two areas for improvement were identified as follows as follows;
 - the creditor set up process could be developed to further support and challenge managers with regard to the IR35 and procurement requirements;
 - regular communication regarding IR35 and procurement requirements when engaging off-payroll workers would help to reinforce awareness and increase the likelihood of adherence to policy and process.

Nursery Services – Reasonable Assurance

- 1.6 The Council directly manages five full day care nurseries and two sessional pre-schools. They provide the free early years entitlement and childcare funded by fees from parents.
- 1.7 For 2017/18, total nursery income was £2.2m and the budgeted council budget subsidy for the service was £308k.
- 1.8 The purpose of the audit was to obtain assurance that controls are in place to meet the following objectives;
 - budgetary arrangements are robust and show clear oversight.

- arrangements are in place to ensure that all income due is collected and properly processed, and;
 - expenditure incurred is correctly authorised and processed in accordance with financial regulations and the needs of the service.
- 1.9 The audit identified that appropriate financial management arrangements are in place but that there are inconsistencies in processes across the nurseries. Areas where improvements can be made are in relation to budget awareness, setting, forecasting and monitoring processes, income reconciliation and debt collection. Appropriate actions to address these issues have been agreed with management as part of a formal action plan.

Supported & Semi-Independent Accommodation – Reasonable Assurance

- 1.10 Supported Accommodation aims to provide accommodation and support pathways to adulthood for young people who are in need of housing and support. A budget for the service includes three broad support options which young people can move between. These are supported accommodation, floating support and shared (student style) accommodation.
- 1.11 In 2017/18 expenditure on this service was £2.2 million which was £685k over the approved budget.
- 1.12 The audit found that the needs of the young person are placed at the heart of the decision making process and that records held within the Child Placement team were of good quality.
- 1.13 Areas where improvements can be made are;
- for placements made outside the remit of this team, evidence (around decision making and cost approval) could not be located for those cases tested. An action was agreed to address this issue, and;
 - the procurement of a framework arrangement for the provision of supported accommodation and semi-independent living (via an Accredited Provider List) is being introduced but at the time of the audit, this process was not yet live.
- 1.14 As noted above there was a significant budget overspend in 2017/18. As a consequence, the 2018/19 budget reflected an assumption of continued growth in placement numbers and was increased to £2.5 million.

Disaster Recovery – Partial Assurance

- 1.13 In June 2018, the Council completed the first move of its data centre and hosted applications to the new ORBIS data centre in Redhill. This process involved the relocation of servers to the new site. Internal audit acknowledged that the migration from the previous disaster recovery site to an Orbis data centre would also include an overhaul of current disaster recovery processes and documentation in line with Orbis standards. However, this review considered the provision of disaster recovery as at the time of audit.
- 1.14 The objective of the review was to establish the current provision of disaster recovery across the systems hosted by the Council and to what extent this recovery provision was understood, trained for and documented.
- 1.15 A number of areas for improvement were identified. These include the need to:
- remove inconsistencies in formal documentation and definition of the overarching and individual disaster recovery processes;
 - review and update policies and overarching documents that support the identification of the Council’s critical systems and the response to supporting disaster recovery incidents to reflect changes to critical requirements of the authority;
 - strengthen the documentation of risks and event responses to reduce the risk of error or loss of critical data, when recovering key systems, and the speed at which recovery can occur.
- 1.16 These areas have been discussed with management who agreed a full review of the Disaster Recovery arrangements will be commissioned to provide strategic review and coordination taking into account all of the findings identified in the report and to ensure IT&D provide a disaster recovery response that is fit for purpose.

Orbis Integrated Budget Management – Partial Assurance

- 1.17 The Orbis Partnership is responsible for delivering services from a joint operating budget, which is shared by the three partnership authorities, in accordance with an Inter Authority Agreement (IAA).
- 1.18 The gross Orbis joint operating budget for 2018/19 is £76.4m, with income budgeted at £13.8m, leaving a net budget of £62.6m. Each Council contributes to the net budget on a ratio of 55% (Surrey County Council (SCC), 24% East Sussex County Council (ESCC) and 21% Brighton and Hove City Council (BHCC)).
- 1.19 The purpose of this new audit was to provide assurance that:

- governance structures, including roles and responsibilities, are clearly defined, understood and effective;
 - adequate and timely management information is available that facilitates effective decision making;
 - budget management reports contain materially accurate and timely information to facilitate effective budget management;
 - the operating costs of Orbis are identified and apportioned across the three Orbis partners on a consistent basis and are clearly understood. Mechanisms are in place to ensure that all income and expenditure is matched to the correct Orbis partner, and;
 - mechanisms are in place to ensure that changes to costs for one partner that are material can be measured and reflected fairly in the agreed contribution ratio.
- 1.20 Whilst areas of good practice were identified, we found a number of opportunities for improvement in control and we were, therefore, only able to provide an audit opinion of partial assurance. The opinion has reduced because managers, who have been managing budgets on an Orbis-wide basis, have had less clarity in their budget reports. This has particularly been the case where their budgets combine both Orbis costs and costs that are managed by Orbis officers, but are specific to sovereign authorities.
- 1.21 The key areas for improvement identified were to ensure that:
- clearer information is available for budget managers who hold budgets allocated on an Orbis-wide basis;
 - the new budget monitoring tool includes commitments for non-staffing spend in order to strengthen budget managers' understanding of the overall position; and
 - a mechanism is implemented to measure the level of service provided to the constituent authorities which, in turn, will increase opportunities to demonstrate value for money being delivered to each sovereign authority.
- 1.22 Actions have been agreed with management to address these issues. Significant effort has been put into providing an integrated budget and a unified approach to budget monitoring across the Orbis partnership. With the integration of Brighton & Hove City Council budgets only coming into effect in April 2018, the combined budgets and use of the new monitoring tool are still in their infancy and it is expected that they will continue to develop and improve. A follow-up audit will be carried out in 2019/20 to ascertain that progress has been made.

Royal Pavilion and Museums – Partial Assurance

- 1.23 In January 2018 the Policy, Resources and Growth Committee (PRG) agreed the proposal to move the management of the service to a single trust in one stage rather than two stages. There was then a delay in the proposed timetable to take into account concerns raised by staff and to allow further engagement with staff and unions. During this period, Internal Audit were asked to look at some of the operational controls within the service to provide assurance that processes are operating as expected.
- 1.24 The purpose of the audit was to obtain assurance that contracts were being let in accordance with Contract Standing Orders and that budget management was robust. Also that the Council's arrangements with the Royal Pavilion & Museums Foundation were clear and fit for purpose and income collection issues previously identified by Internal Audit have been addressed.
- 1.27 The audit found a number of areas for improvement. These were:
- contracts are not always being let in accordance with the Council's Contract Standing Orders;
 - the service has a complex budget set-up and areas were identified where budget management needs to be improved;
 - there was no written Agreement between the Royal Pavilion & Museums Foundation and the Council to set out the responsibilities of each party.
 - there were no documented cash handling procedures and there were also shortfalls with the processes in place that were observed by the auditor.
- 1.28 A detailed action plan has been put in place and is being implemented by the service.

Housing Allocations – Partial Assurance

- 1.30 The council holds a stock of approximately 11,500 HRA dwellings and is required by the Housing Act 1996 to have an allocation scheme which determines priorities in allocating social housing. It is Brighton & Hove City Council's policy to operate a Choice Based Lettings scheme for those persons who the authority has a statutory duty to house, and to qualifying persons assessed as having the greatest need.
- 1.31 The objective of the audit was to provide assurance that controls are in place to meet the following expected controls:
- that an allocations scheme is in place that is in accordance with legislative requirements;
 - the processing and vetting of initial applications/registrations is made in accordance with the scheme, and addresses key fraud risks;

- the housing register is subject to maintenance and review, which periodically removes applicants should they cease to be eligible;
 - allocations are made in accordance with the allocations policy.
- 1.32 The review found that the current system (Homemove) is inefficient, with shortlisting being a manual and often lengthy exercise. This leaves the allocations process open to error, with only limited time to fulfil the Allocations Policy requirements prior to confirming an offer.
- 1.33 Specific areas for improvement were identified by the audit sample testing including:
- properties being allocated where persons may not have been eligible to be housed;
 - insufficient checks being carried out to detect problems with some applications and inadequate evidence is being maintained of the checks carried out.

Actions have been agreed with service management to strengthen controls in the service and address the issues above.

Brighton Centre – Minimal Assurance

- 1.34 An unplanned audit review was requested at the Brighton Centre because it had been identified that a group of staff had been underpaid for various shifts relating to weekend /overtime working and the taking of leave during these times. The (local IT database) system did not accurately process the data resulting in incorrect pay being calculated. For the nine staff affected the back-pay was calculated at £25,000, plus on-costs.
- 1.35 On the basis of this information an audit was agreed to obtain assurance on:
- the accurate rostering and recording of worktime;
 - the correct claiming and approving of overtime and other enhancements ;
 - the accurate calculation of pay in accordance with BHCC terms & conditions, and;
 - the effectiveness of management control/approval processes.
- 1.36 The audit identified a number of areas where controls were considered inadequate, including:
- the current system of paying enhancements for unsocial hours, overtime and other local extras is overly complex and administratively cumbersome. Problems have been compounded as a locally developed database has not worked correctly;

- the complexity of the process also means that additional hours worked are not signed by the individual, for management to check and authorise;
 - the current system relies on paper timesheets and clock-card reports and there are also a large number of manual interventions and adjustments to hours claimed. Where adjustments are made these are not always fed back to the individual employee;
 - there are staff working significant and regular amounts of overtime, and
 - there are a number of locally determined arrangements for lieu time.
- 1.37 New processes have been put in place to ensure that these issues are addressed as a matter of priority. A follow-up audit will also be scheduled to ensure that these actions have been implemented.

Brunswick Primary School – Reasonable Assurance

- 1.38 An audit of Brunswick 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.
- 1.39 The review concluded reasonable assurance meaning that most controls were in place and operating as expected.
- 1.40 The areas for improvement were identified as follows:
- at the time of this audit the School was not registered with the ICO with a data controller. This was rectified immediately and the school is now compliant and able to legally collect and process data and information from families;
 - there was no formal process to reconcile school trip income, and;
 - the school does not currently undertake an annual independent check of the asset register.

St Mary Magdalen’s Primary School – Reasonable Assurance

- 1.41 An audit of St Mary Magdalen Catholic 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.
- 1.42 The review concluded reasonable assurance meaning that most controls were in place and operating as expected.

1.43 The areas for improvement were identified as follows:

- the quality of financial information shared with the Full Governing Body needs to be improved;
- right to work documentation should be retained as specified by the Home Office and the Council’s own HR guidance;
- monitoring of costs relating to lettings needs to be improved, and;
- there is a need to ensure that an independent review takes place in all key financial processes of including payroll, additional payments, and bank reconciliations.

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; specialisms; and sustain a strong sovereign focus.
- 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
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 6-month period to date, there have been several investigations across the partnership, some previously reported in our Quarter One progress report, which have been resourced through sovereign audit teams supported by advice and direction from the counter fraud team.</p>
NFI Exercise	<p>The biennial NFI exercise is due for submission in October 2018. 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 are due in late January 2019 at which point the counter fraud team will liaise with partner authorities to review and investigate flagged matches.</p>
Counter Fraud Policies	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 recent changes in legislation.
Fraud Risk Assessments	Fraud risk assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified.
Fraud Response Plans	The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector and provide a proactive counter fraud programme. These are being reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will include an increased emphasis on data analytics.
Fraud Awareness	The team have been rolling out a programme of fraud awareness workshops to help services identify the risk of fraud and vulnerabilities in their process 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 second half of the year:

- Continued refresh of Fraud Risk Assessments.
- 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 to coincide with Fraud Awareness Week.

Summary of Completed Investigations

2.5 The outcomes at the end of quarter 2 are as follows: -

- Investigations have resulted in 13 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 £10,900 have been created so far as a result of investigations.
- Council tax reduction adjustments of £6,600 have also been identified this year, together with a further £19,600 in relation to Council tax account discounts (SPD's etc.).
- 19 Cases of Blue Badge fraud have been sent for prosecution and 72 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.

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 2, 85.7% of high priority actions due had been implemented.
- 3.2 The actions outstanding relate to an audit of Building and Systems Security and three actions that are overdue in Neighbourhoods, Communities and Housing. These three actions relate to an audit of the Housing Local Delivery Vehicle (Brighton & Hove Seaside Community Homes).

Details of Audit, Risk and Action	Dir.	Due date	Revised date	Progress and comments
<p>Building and Access System Controls</p> <p>IT&D to undertake a project to look at options of how to identify all system users to ensure set up, changes and removal for individuals to all systems are responsive to the business needs.</p> <p>Produce timeline and identify resources required to implement preferred option. (Rec. 5)</p>	F&R	31/8/18	30/6/19	<p>The programme is being re-set so the implementation has been delayed.</p> <p>The new project group is chaired by the Exec. Director (Finance and Resources).</p>
<p>Local Delivery Vehicle/ Brighton and Hove Seaside Community Homes (BHCSH)</p> <p><u>Funding Gap.</u> The current agreement and financial model in use is unsustainable and requires renegotiation.</p> <p>If a new agreement cannot be negotiated the Council will face an ever increasing rent gap between the amount paid over to BHSC and the amount received by the Council in the form of Housing Benefits.</p>	NCH	30/9/18	30/9/19	<p>Housing have been working with Finance on the financial modelling of changes to the agreement.</p> <p>These will also require negotiations with BHSC and may also require the Council</p>

Details of Audit, Risk and Action	Dir.	Due date	Revised date	Progress and comments
<p>Housing agreed an action to work with Seaside Homes to discuss and agree a constructive way forward. (Rec. 1)</p>				<p>to obtain legal advice.</p> <p>It is expected that this will now take up to 12 months to resolve.</p>
<p>Local Delivery Vehicle/ Brighton and Hove Seaside Community Homes</p> <p><u>Overall Financial Position.</u> The funding agreement and original financial modelling included assumptions about the cost structure of BHSCH.</p> <p>At present there is a lack of transparency over costs incurred by BHSCH and the Council is in dispute about £100,000 per year of insurance costs which are currently picked up by the Council.</p> <p>If these issues cannot be resolved there is an additional financial risk/pressure for the Council which was not allowed for in the original financial model.</p> <p>At the time of the last audit Housing agreed an action to work with Seaside Homes to discuss and agree a constructive way forward.(Rec. 2)</p>	NCH	30/9/18	30/9/19	<p>Progress to resolve this issue has been slower than anticipated and the Council has not been able to obtain additional information on the costs being incurred by BHSCH.</p> <p>The Council believes that BHSCH has the funding to be able to resolve the dispute over the payment of insurance premiums but as yet no agreement has been reached on this issue.</p> <p>It is again considered that a prompt resolution of these issues is unlikely and it may take up to 12 months to progress.</p>
<p>Local Delivery Vehicle/ Brighton and Hove Seaside Community Homes</p> <p><u>Governance arrangements.</u> The Council has three of its elected Members appointed to the Board of Seaside Homes Board but finance reports are not shared with the Council and the open and</p>	NCH	30/9/18	30/9/19	<p>Progress to resolve this issue has been slower than anticipated.</p> <p>It is again considered that a</p>

Details of Audit, Risk and Action	Dir.	Due date	Revised date	Progress and comments
<p>transparent governance arrangements expected when BHSCCH was set up by the Council have not materialised.</p> <p>Without this transparency the Council is unable to provide assurance that Seaside Homes delivers appropriate services within budgets that are affordable for all parties. (Rec. 3)</p>				<p>prompt resolution of these issues is unlikely and it may take up to 12 months to progress.</p>

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:
- Highways Contract Management – this audit was requested by the Director of Economy Environment & Culture following the receipt of an allegation about poor value for money in respect of some of the current arrangements. The review is planned to focus on compliance with the existing contract arrangements with sample testing on specific jobs;
 - Orbis Budget Management – the findings of this audit are detailed in this progress report. The audit was included on the internal audit plan for East Sussex Council but not Brighton and Hove City Council. It has been reported here as it has equal relevance to this Council being an Orbis sovereign partner.
- 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. During Quarter 2, we have taken the opportunity to review available internal audit resources for the year in light of vacancies and some long term sickness absences within the service. Whilst we are proactively managing the situation and remain confident of being able to achieve sufficient coverage to provide the annual internal audit opinion, there remains a high risk that we will be unable to deliver all of the planned audit days by 31 March 2019. In such circumstances, it is necessary to

re-prioritise our work and therefore the following audits have formally been removed from the plan:

- Waterfront project - the reason for this audit’s inclusion in the 2018/19 plan was to provide ongoing review and assurance on the Waterfront Project, focusing on specific areas of risk to be agreed with management. The planned audit will not be delivered in 2018/19. It is likely that an audit will be included in the 2019/20 plan and this will better align to the project timetable. In the interim we will continue to provide advice and support to the project as required.
- Parking Permits - this review is being removed from the 2018/19 audit plan in light of previous high levels of internal audit coverage in this area and also to enable our resources to focus on supporting the service with the re-procurement of new software through provision of advice, support and challenge when required.
- Housing Repairs Contract - this was an allocation of time set aside for the review of the existing contract and/or the procurement process for the re-letting of this contract. Now that a decision has been made to bring this service in-house audit, resources will instead be redeployed to supporting the mobilisation project for the new in-house service, and an examination of the associated risks.
- System Access Controls - the purpose of this audit was to follow-up on previous audit work and an associated corporate project to resolve control weaknesses. Given that this work is not yet complete (as highlighted in paragraph 3.2 above) the audit will be deleted from the 2018/19 audit plan. A review will be considered for inclusion in the 2019/20 audit plan.
- Learning Disabilities - the purpose of this audit was to review the controls over the provision of learning disability services for adults and was to be a joint review with Families, Children and Learning and Health and Adult Social Care. However, it has been identified that many of the objectives of this audit are being covered by another audit; Commissioning Arrangements - Joint Review. In light of this, and our having only recently finalised an audit on Learning Disabilities (Contract Management), it is felt that this review can be deleted from the 2018/19 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
-------------------	--------------------------------	--------	-----------	--------------------

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 Committee on 27 March 2018
	Annual Audit Report and Opinion	By end July	G	2018/19 Annual Report and Opinion approved by Audit Committee on 24 July 2018
	Customer Satisfaction Levels	90% satisfied	G	100% as at the end of quarter 1
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	On target. 43.6% of the plan complete as at the end of quarter 2.
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
	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	A	85.7% at end of quarter 1. Details of those actions outstanding have been reported on above and will continue to be monitored by Internal Audit.
Our staff	Professionally Qualified/Accredited	80%	G	85%

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.

