

<b>Subject:</b>	<b>Internal Audit and Corporate Fraud Progress Report</b>		
<b>Date of Meeting:</b>	<b>19 September 2017</b>		
<b>Report of:</b>	<b>Executive Director, Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Mark Dallen</b>	<b>Tel: 29-1314</b>
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

1.1 This purpose of this report is to update and provide assurance to the Audit & Standards Committee that:

- the internal audit and corporate fraud teams are on target to deliver the audit and corporate fraud strategy and plan for 2017/18;
- the council is dealing with governance and control weaknesses appropriately.

1.2 The report summarises:

- the progress made against the Internal Audit and Corporate Fraud Plan;
- the results of work undertaken for the year to date;
- progress made by management in implementing audit recommendations.

**2. RECOMMENDATIONS**

2.1 That the Audit & Standards Committee note the report.

**3. CONTEXT/ BACKGROUND INFORMATION**

3.1 The Audit & Standards Committee approved the Internal Audit and Corporate Fraud Plan on 7 March 2017. The report detailed the planned audit and corporate fraud activities for 2017/18, and the measures of delivery.

3.2 Since setting the plan some changes to the resourcing of the service have occurred including the deletion of the post of Head of Internal Audit. This post has been replaced by an Orbis Chief Internal Auditor (Russell Banks) who leads the service across East Sussex and Surrey County Councils as well Brighton & Hove City Council. Day to day management of the service at Brighton & Hove City Council is undertaken by Mark Dallen, Audit Manager.

3.3 Resources remain sufficient to deliver the planned activities for the year.

#### 4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

##### Progress against the audit plan

- 4.1 Internal Audit is on target to deliver 90% of the approved audit plan as per the key performance indicator. For the year to date 15 of the 49 audit reviews have been completed (30%). Of these 11 reports have been finalised as per table 1 below.

**Table 1 – Audits delivered for the financial year 2017/18 to date**

<b>Audit</b>	<b>Opinion Given*</b>
Employee Vetting and Recruitment	Reasonable Assurance
Public Consultations	Reasonable Assurance
Active Directory – User Management	Partial Assurance
Lift Maintenance Contract (Housing)	Substantial Assurance
Purchasing Cards (Follow-up)	Reasonable Assurance
School Audits x 3	Partial Assurance x 2 Minimal Assurance x 1
Business Continuity Planning	Substantial Assurance
Youth Employability Service	Substantial Assurance
Contract Waivers	Substantial Assurance
Troubled Families – Grant Claim	Grant claim certified
EU Interreg Grant Scape	Grant claim certified

\*Appendix 1 provides a definition of these audit opinions.

- 4.2 Further information on each of these reports including the scope and main conclusions is provided in Appendix 2.

##### Progress against the counter fraud plan

- 4.3 The Corporate Fraud Team has a number of different work streams to deliver during 2017/18. Progress to date is detailed in table 2 below.

**Table 2 – Corporate Fraud outcomes for the financial year 2017/18 to date**

<b>Main areas of service delivery</b>	<b>Outcomes delivered for the year to date</b>
Housing Tenancy and Right to Buy Fraud	Seven properties have been returned to stock so far and 26 Right to Buy cases have been stopped.  Three cases were also identified where there was no duty to house the applicant.
Investigating and pursuing fraud in other high priority areas	Employment investigations have so far resulted in the dismissal of four employees.  Investigations into residents parking permits have resulted in six permits being cancelled or returned.  Rent rebate overpayments totalling £31,000 have been identified and £9,000 in Council Tax Reduction/Council Tax Exemptions/Discounts.
Data matching	The Corporate Fraud Team are continuing to review the data

	<p>matching reports that were produced as part of the National Fraud Initiative 2016 exercise.</p> <p>The team are also are also scheduling an additional exercise to match deceased persons records from the DWP to Blue Badges, residents Parking Permits and Housing Tenancy data.</p>
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### Additions and Deletions to the approved internal audit plan

4.4 The following audits have been added to this year's audit plan.

Audit Additions	Requested by
HRA Estate Development Budget	Executive Director (NCH)
Adult Social Care Income and Assessments	Executive Director (F&R)
Concessionary Fares	Executive Director (EEC)

4.5 The following audits have been deleted from this year's plan.

Audit Deletions	Rationale
Highways Asset Valuation	National requirement for assets to be revalued has been placed on hold.
Major Capital Projects (Housing development initiatives)	Substantial assurance was given by the Housing New Builds Audit in 2016/17. Agreed with Executive Director (EEC) that audit is not required at this year.

### Other Work

4.6 We have continued to provide advice and guidance to individual services and schools (including the issue of bulletins to schools) to promote effective governance and financial management.

4.7 The service has also provided resources on an ongoing basis to support the integration with the internal audit and counter fraud service with East Sussex and Surrey County Council's, as well as supporting the development of governance arrangements for the wider Orbis programme.

### Progress made in implementing recommendations

4.8 The percentage of recommendations implemented within target is closely monitored and compiled on a quarterly basis for reporting to ELT. As at the end of quarter 1 (30 June 2017) 86% of recommendations due had been implemented (see table 3 below).

**Table 3 – implementation of audit recommendations (as at 30 June 2017)**

Period to:	Audit Recs Due	Database not updated by managers	Not Implemented (or less than 50% implemented)	Implemented (includes part implemented > 50%)	Implemented (%)
30 June 2017	253	13	22	218	86

4.9 This is better than the rate reported at a similar time last year (82%) but is lower than the target of 90%.

4.10 Although the overall implementation rate was 86% the figure for high priority recommendations is only 75%. The high priority recommendations that have not yet implemented are set out in table 4 below. Internal Audit will continue to work with ELT and other senior managers to ensure that all audit recommendations are given sufficient attention, particularly those judged as high priority. We will also continue to report progress in these areas on a regular basis to this committee.

**Table 4 – high priority recommendations due by the 30 June 2017 not yet implemented**

Audit/Recommendation	Directorate	Due date	Progress
<u>IT Waste Disposal</u> Review and where necessary revise the "Contract for the disposal of ICT Waste" to maintain compliance with the regulatory requirements for electronic waste as well as compliance with the information security requirements placed upon the named contractor	F&R	31/3/17	Work is underway to update the contract to reflect this recommendation
<u>Residents Parking Permits</u> All renewal applications should be validated (electronically if possible) to ensure evidence of ongoing eligibility is confirmed.	EEC	30/6/16	The service is still working on this. At the moment the online permit system only validates customers when they register accounts.  The first renewals for the new schemes on the system will not happen for three months so that will be a critical time to work with Digital First to ensure an internal system is put in place.  The service will operate spot checks for some high risk Central Brighton areas as an interim control.
<u>Residents Parking Permits</u> Parking should ensure that any improvements to the verification process are extended to the	EEC	30/6/16	New system arrangements are being applied to customers buying visitor permits with verification when they create

processing of all other relevant permit types where residency is a condition of issue.			new accounts.  Once all the parking schemes have been put in the system (next phases likely to be November 2017 / and January 2018) the service will look at applying to other permits where residency is a condition of use.
<u>Residents Parking Permits</u> All applications (whether physical or electronic) should be adequately retained to enable easy retrieval in the event that this is required.	EEC	30/6/16	The new online permit system once implemented will retain a full application history along with records of any document uploads where customers have failed the automated id check and need to be manually verified by staff.
<u>Debtors</u> Services will now be provided with schedules showing debts outstanding and the stage of recovery on a regular basis, in accordance with the Corporate Sundry Debt Management procedure.	F&R	30/6/17	Reports are provided for some areas but still need to be developed and rolled out to a much wider number of services.
<u>Cybersecurity</u> Conduct a pro-active Cyber Security risk identification review and communicate results within the corporate reporting to the Information Governance Board.	F&R	30/6/17	This exercise was planned to coincide with the results of our recent pen-tests. The service have now received the written reports and are actively working on the risk assessment and anticipate presenting to Information Governance Board when it meets next in October 2017. At a high level, key risks were verbally communicated to the SIRO at the last monthly meeting.
<u>Cybersecurity</u> Develop and implement a holistic Cyber Security policy which aligns to Cyber Security Good Practices.	F&R	30/6/17	This action has not yet been completed but will be finalised in September for presentation to the information Governance Board in October 2017.
<u>Temporary Accommodation Voids &amp; Overpayments</u> Establish and set out clearly an overview of the process and responsibilities for managing voids including monitoring, clearing, escalating voids and recovering void losses	NCH	30/4/17	Procedures are in the process of being drafted.
<u>Life Events Income</u> Financial reconciliations should be completed and independently	SGL	31/3/17	An interim arrangement has been developed which is enabling a monthly

reviewed and verified recording responsible officers			reconciliation to take place.  A more streamlined process is being introduced as a result of a detailed review of current reconciliation processes.
<u>Computing Facilities</u> Implement an IT Policy governing the physical security measures to be taken to protect computing facilities	F&R	31/1/17	This work will be informed by the results of the recent pen-test exercise with the aim is to have the policy written for the Information Governance Board in October.
<u>Housing Electrical Works</u> Recommendations were made that the service should review and resolve (in conjunction with the contractor) discrepancies between work carried out and the charges for electrical work under the housing repairs contract.	NCH	30/9/16	A narrative update on progress to date is provided in Appendix 3.

We continue to work with ELT and other senior managers to ensure that all audit recommendations are given sufficient attention, particularly those judged as high priority.

## 5. COMMUNITY ENGAGEMENT & CONSULTATION

5.1 None.

## 6. CONCLUSION

6.1 The Committee is asked to note the report.

## 7. FINANCIAL & OTHER IMPLICATIONS:

### Financial Implications:

7.1 It is expected that the Internal Audit and Corporate Fraud Plan 2017/18 will be delivered within existing budgetary resources. Progress against the plan and action taken in line with recommendations support the robustness and resilience of the council's practices and procedures in support of the council's overall financial position.

*Finance Officer Consulted: James Hengeveld*

*Date: 07/9/17*

### Legal Implications:

7.2 The Accounts and Audit Regulations 2015 require the Council to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards'. It is a legitimate part of the Audit and Standards Committee's role to review the level of work completed and planned by internal audit.

Equalities Implications:

- 7.3 There are no direct equalities implications.

Sustainability Implications:

- 7.4 There are no direct sustainability implications.

**SUPPORTING DOCUMENTATION**

**Appendices:**

1. Audit Opinions and Definitions
2. Commentary on Finalised Reports
3. Commentary on progress on Housing Electrical Work discrepancies

**Documents in Members' Rooms**

1. None

**Background Documents**

1. Internal Audit and Corporate Fraud Strategic Plan 2017/18

## Audit Opinions and Definitions

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



### Commentary on Finalised Reports

#### Employee Vetting and Recruitment – Reasonable Assurance

The audit was to determine that recruitment processes ensure that all appointments are made in accordance with approved procedures, and that controls are in place to prevent the appointment of individuals with relevant convictions or those with false identities or no right to work.

The review provided assurance that most controls are in place and are operating as expected to manage key risks.

Areas of improvement included that;

- HR records include essential qualifications all staff.
- There are improved controls over the monitoring of the expiry of right to work visas.

#### Public Consultations - Reasonable Assurance

The scope of this audit was to ensure that there is a clear policy on the type of issues to consult and or engage on, that consultations incorporate all relevant people and groups and that there are effective feedback mechanisms in order to demonstrate how views have been taken into account.

The review provided assurance that most controls are in place and are operating as expected to manage key risks.

Areas for improvement included;

- A need to improve awareness of the existing Community Engagement Framework.
- Equalities Impact Assessments not being incorporated in all consultations.
- Over-reliance on the online consultation portal which could mean that responses to consultations are limited to the same people.

#### Active Directory – User Management - Partial Assurance

Active Directory provides the authentication and authorisation mechanisms for users to gain access to the Council network, information assets, and applications. It is therefore vital that controls are in place to ensure that accounts are only provided to authorised, and current staff members and those levels of access are commensurate with their role and Data Protection requirements.

The review found that there were some controls not working effectively to manage access to the Council network, information Assets, and applications.

The report includes 8 medium priority recommendations for improvement.

### **Lift Maintenance Contract (Housing) – Substantial Assurance**

This audit was restricted to reviewing the controls in place for the management of the lift maintenance contract relating to the council's housing stock.

Our testing provided assurance that the contract is appropriately managed and monitored both for maintenance and new lift installations.

### **Purchasing Cards (Follow-up) - Reasonable Assurance**

The purpose of the audit was to ensure that controls are in place to ensure that all purchases are properly reviewed and authorised, and that evidence of non-compliance or potential fraudulent activity is effectively monitored.

The review was a follow-up which found that there has been a significant improvement in the control framework since the Limited Assurance report in October 2016.

Four recommendations were made to further improve on the controls now in place.

### **School Audits x 3**

The schools identified for audit have been determined through a risk assessment which considers the date of the last audit, the Schools Financial Value Standard (SFVS) returns and known budget issues.

Three school audits have been completed for the year the date. These schools were:

Middle Street Primary School – Partial Assurance  
Varndean Secondary School – Partial Assurance  
St Bartholomew's C E Primary – Minimal Assurance

Each schools audit covers the wide range of financial governance, management and administrative activities carried out at each school.

Key areas for improvement identified from the three audits above included:

- a need to address increasing budget deficits
- a need for improvements to budget monitoring, forecasting and reporting
- poor controls over cash income and debt management
- weak purchasing controls
- insufficient oversight of voluntary funds;
- a need for improved arrangements for declarations of interest.

### **Business Continuity Planning – Substantial Assurance**

The audit was a review of the Council's strategic and tactical capability to plan for and respond to incidents and business disruptions.

The review found that controls are in place and are operating as expected to manage key risks.

The audit was a follow-up of the 2016/17 audit that had identified control shortfalls and concluded Limited Assurance. It found that strategic, and operational Business Continuity plans (BCPs) have now been produced for each identified service and that all directorate plans have business continuity as a standing item. It also confirmed that qualitative testing of operational BCPs is being undertaken, and processes to ensure regular updates are in place. Where there are shortfalls with existing plans these are being identified by the service.

### **Youth Employability Service – Substantial Assurance**

There were no significant findings from this review which was to provide assurance that

- Information, advice and guidance are efficient, effective and demonstrate positive outcomes.
- IT systems and processes are fit for purpose; including how data is obtained from schools and colleges.
- Data is accurate, complete and processed in a timely way.
- Reporting on budget and performance is robust.

The performance of the YES team in ensuring that all young people have an offer of learning has improved year on year between 2014 and 2016, and also compares favourably with the latest national figures.

### **Contract Waivers – Substantial Assurance**

Contract standing orders (CSOs) are the key internal regulations governing purchasing and tendering in the council but can be legitimately waived by officers in some specific circumstances.

The review found that controls are in place and are operating as expected to manage key risks.

Findings in our 2016/17 audit had previously resulted in a limited assurance conclusion. This audit found that key recommendations had been implemented including improved guidance and documentation, a reduction in repeat waivers and appropriate officer authorisation. There is also evidence of improved scrutiny of waiver requests and a reduction in the value of waivers approved.

### **Troubled Families – Grant Claim – Assurance Level - Not Applicable**

The Internal Audit service is required to check and certify each of the council's claims to the DCLG under the Troubled Families Programme. This includes detailed validation of the outcome data held on a sample of families for each claim.

No significant issues were identified in the grant certification.

## **EU Interreg Grant Claim (SCAPE) – Assurance Level - Not Applicable**

This is one of three EU Interreg projects that require grant certification on an annual basis.

The full project title is “Shaping Climate change Adaptive PlacEs”. The total project costs over the next 4 years are in excess of £400,000.

No significant issues were identified in the grant certification.

**Commentary on progress on Housing Electrical Work discrepancies**

A 2016/17 internal audit report confirmed that discrepancies identified between work carried out and the charges for electrical work under the housing repairs contract required further review. This outcome of the audit was reported to Audit and Standards Committee in November 2016.

The examination of these issues has proved to be a complex exercise and has taken much longer than originally envisaged. We understand that the Housing Service has been working with Mears to more clearly understand and resolve these and address any ongoing matters. Work is still in progress which includes inspection visits as well as the validation of data and other information. The inspections are expected to be complete by the end of September 2017 at the latest.

A more detailed update report, covering the outcomes from this work and the actions taken to resolve any issues arising will be provided to the next Audit and Standards Committee in January 2018

