

<b>Subject:</b>	<b>Internal Audit and Corporate Fraud Progress Report</b>		
<b>Date of Meeting:</b>	<b>9 January 2018</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>
	<b>Email:</b>	<b>Mark.Dallen@brighton-hove.gcsx.gov.uk</b>	
<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 actions.

**2. RECOMMENDATIONS**

- 2.1 That the Audit & Standards Committee notes the report and considers any further action required in response to the issues raised.

**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 This post has been replaced by an Orbis Chief Internal Auditor who leads the service across East Sussex and Surrey County Councils as well Brighton & Hove City Council.
- 3.3 As at the time of reporting 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, 30 of the 49 audit reviews have been completed to draft or final report stage (61%). A total of 14 audits have been finalised since our last report in September, as per table 1 below.

**Table 1 – Audits finalised since the last committee meeting.**

<b>Audit</b>	<b>Opinion given*</b>
Main Accounting	Substantial
Treasury Management	Substantial
School Places Planning	Substantial
Mobile and Portable (IT) Devices	Reasonable
Residential Care for the Elderly	Partial
Council Tax	Partial
Housing Emergency Accommodation	Partial
Organisational Capacity	Partial
City Clean (External Contracts and Commercial Activities)	Minimal
Disabled Facilities Grant (2016/17)	Grant certified
Transport Capital Grant, Bus Subsidy Grant, Pot Holes Grant (2016/17)	Grant certified
Bus Subsidy Grant (2016/17)	Grant certified
Pot Holes Grant (2017/18)	Grant certified
EU Interreg Grant – SHINE (Claim 1)	Grant 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	<p>A total of 12 properties have now been returned to stock (an increase of 5 from the number reported to the last committee).</p> <p>A total of 35 right to buy applications have not been pursued after preventive review by the team. This is an increase in 9 cases since the last committee.</p>
Investigating and pursuing fraud in other high priority areas	<p>Employment investigations for the year to date have resulted in the dismissal of four employees (no change on the number last reported).</p> <p>Investigations into residents parking permits have resulted in 8 permits being cancelled or returned for the year to date.</p> <p>Rent rebate overpayments totalling £70,000 have been</p>

	identified and £9,000 in Council Tax Reduction/Council Tax Exemptions/Discounts for the year to date.
Data matching	The team are currently undertaking a discretionary NFI data matching exercise to match deceased persons records from the DWP to Blue Badges, residents Parking Permits and Housing Tenancy data. The results of this work will be reported in due course.

### Additions and Deletions to the approved internal audit plan

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

- ICT Disaster Recovery
- Able and Willing Service

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

Audit Deletions	Rationale
Housing Allocations	Request received from Housing management to be deferred to 2018/19 because of software and policy changes.

### Progress made in implementing actions

4.6 The percentage of actions implemented by their target dates is closely monitored by Internal Audit and compiled on a quarterly basis for reporting to ELT. As at the end of quarter 2 (30 September 2017), 82.5% of actions due had been implemented (see table 3 below).

**Table 3 – implementation of audit actions (as at 30 September 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 September 2017	211	17	20	174	82.5%

4.7 This is better than the rate as reported at a similar time last year (82%) but is lower than the target implementation rate of 90% for 2017/18.

4.8 The implementation rate for high priority actions is now 81%. The high priority actions that have not yet implemented are set out in table 4 below.

**Table 4 – high priority actions due by the 30 September 2017 not yet implemented**

Audit/ Action	Dir.	Due date	Revised date	Progress and risks.
<u>IT Waste Disposal (Rec. 7)</u> Review and where necessary revise the "Contract for the	F&R	31/3/17	31/3/18	The implementation of this action has been delayed because of the pressure on

Audit/ Action	Dir.	Due date	Revised date	Progress and risks.
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.				resources within the relevant teams – compounded by the failure to appoint a Contracts Officer post.  At the time of the audit, the supplier was sub-contracting some activity. However, as the supplier is no longer sub-contracting work, the risk associated with this recommendation had reduced significantly.
<u>Residents Parking Permits (Rec. 4)</u> All renewal applications should be validated (electronically if possible) to ensure evidence of ongoing eligibility is confirmed.	EEC	30/6/16	30/6/18	Parking services have piloted an online system which validates applications against residency data. The pilot has not been successful and the service is examining alternative options. There a risk that residents obtain permits through the renewal process that they are not entitled to.  Parking Services are attending the meeting to provide an update on this issue.
<u>Residents Parking Permits (Rec. 5)</u> Parking should ensure that any improvements to the verification process are extended to the processing of all other relevant permit types where residency is a condition of issue.	EEC	30/6/16	30/6/18	See comments above.
<u>Cybersecurity (Rec. 2)</u> (R2) Develop and implement a holistic Cyber Security policy which aligns to Cyber Security Good Practices.	F&R	30/6/17	28/2/18	In order to streamline the process and fit the annual IG Toolkit schedule, all policy approval by IGB is now scheduled for February. The introduction of a Cyber Policy (along with other new policies) will be approved in line with this schedule.  Residual risk that physical security measures do not comply with best practice and/or are not consistently communicated or applied.
<u>Cybersecurity (Rec. 4)</u> Conduct a pro-active Cyber	F&R	30/6/17	28/2/18	The implementation of this action has been delayed

<b>Audit/ Action</b>	<b>Dir.</b>	<b>Due date</b>	<b>Revised date</b>	<b>Progress and risks.</b>
Security risk identification review and communicate results within the corporate reporting to the Information Governance Board.				because of the pressure on resources within the Information Security Team.  The implication of not completing this review is that individual cybersecurity risks may not be prioritised, or that that actions to address risks are not effectively mapped, monitored or communicated.  At a high level, key risks are verbally communicated to the SIRO.
<u>Computing Facilities (Rec. 3)</u> Implement an IT Policy governing the physical security measures to be taken to protect computing facilities	F&R	31/1/17	28/2/18	In order to streamline the process and fit the annual IG Toolkit schedule, all policy approval by IGB is now scheduled for February. The introduction of a computing facilities physical security policy (along with other new policies) will be approved in line with this schedule.  Residual risk that physical security measures are not consistently communicated or applied.
<u>Housing Electrical Works x2</u>	NCB	30/9/16	To be confirmed	A separate update on this issue will be provided as part of this agenda.

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

4.10 As requested at the September meeting of the Audit and Standards Committee we are now tracking the agreed actions from the external auditors report (Audit Results report 2016/17). The report included four actions one of which was already implemented. The status of the other three actions is as follows:

<b>EY Action</b>	<b>Dir.</b>	<b>Due date</b>	<b>Progress</b>
(EY 1) Ensure there is rigorous review of the information provided to expert valuers and the information received from the valuer in order to ensure the basis of the valuation provided is appropriate.	F&R	N/A	Arrangements have been made for this information to be available at a date which allows earlier review and analysis of changes before preparation of the annual accounts.
(EY 3) The Council should undertake rigorous review of its working papers supporting	F&R	N/A	Arrangements have been made for this information to be available at a date which allows earlier review before preparation of

lease disclosures.			working paper and the annual accounts.
(EY 4) Ensure authorization controls regarding non-purchase order expenditure are in place and adhered to.	F&R	N/A	This action was based on work carried out by internal audit and was already being tracked. The action is recorded as substantially (90%) implemented, and re-testing will be included as part of our annual creditors audit in quarter 4.

## 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 actions support the robustness and resilience of the council's practices and procedures in support of the council's overall financial position. Financial benefits or consequences arising from internal or external audit investigations are incorporated within monthly Targeted Budget Management monitoring reporting for the relevant services and, where there are ongoing implications, within the annual budget setting process.

*Finance Officer Consulted: Nigel Manvell*

*Date: 22 December 2017*

### 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.

*Lawyer Consulted: Victoria Simpson*

*Date: 19/12/17*

### 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

### **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**

### **Main Accounting - Substantial Assurance**

The purpose of the audit was to ensure that the council's main accounting system is fit for purpose and interfaces with other financial systems effectively. The review included examination of controls over financial journals, suspense accounts and the structure of accounts.

The review found that key controls were working effectively.

Four actions for improvement were raised and agreed with management, although three of these were only low priority. The one medium priority action related to an error suspense account that was not being reviewed and cleared regularly.

### **Treasury Management - Substantial Assurance**

The Treasury Management audit covered the council's arrangements for its management and administration of borrowing and investments. This included ensuring that appropriate policies and procedures were in place and that all deals are properly authorised and recorded. Also, that key reconciliations are in place and that borrowings and investments are undertaken within agreed parameters, with effective reporting of performance to senior management and elected members.

This review did not identify any shortfalls and there were no proposed actions.

### **School Places Planning - Substantial Assurance**

The audit of school places planning was aligned to a strategic risk. The purpose of the review was to obtain assurance that controls are in place to mitigate the risk of a shortage of secondary school places and to identify any gaps in the controls.

We were satisfied that appropriate processes are in place to accurately forecast pupil numbers, including the identification of peak years, and that plans are being progressed to address the future demand pressures.

An improvement has been agreed by updating the risk register to include the addition of three controls that are relevant to the management of this risk.

### **Mobile and Portable (IT) Devices - Reasonable Assurance**

The scope of the audit was to provide assurance that the council's arrangements for mobile device management (e.g. laptops and smartphones) were sufficiently robust and that the use of these devices poses no greater risk than that of fixed device (desktop) computing. Also, that there are effective controls in place in relation to the loss of any of these devices.

It was found that although controls are in place to manage the key risks identified, there are some risks which have not been captured (applications used, sensitivity of data etc.)

within the risk management process and others where the status of mitigations is not clear.

Specific actions were agreed to help ensure that risks, and associated controls, relating to mobile devices are properly captured in the IT & Digital risk register and to provide more clarity about some of the existing risk mitigations.

### **Residential Care for the Elderly - Partial Assurance**

The main focus of this review was on the contract management arrangements, including providing assurance that service agreements adequately describe the support required and the associated cost of it. It included looking to ascertain that key performance indicators had been identified and used and that there was effective monitoring of contract costs.

Key findings were that:

- some residential nursing care clients are not having their care needs reviewed on an annual basis;
- the Council is paying above the set fee rate for residential and nursing care for a growing number of clients;
- demand and supply cost issues have put pressure on the budget which has resulted in overspending;
- responsibilities for contract management, other than quality of care, are not clearly defined;
- some performance data is not been collected or analysed;
- the council is not always promptly notified if a client dies or moves out.

Actions have been agreed with regard to all of the above weaknesses, including the need to improve the percentage of annual assessments completed and clarifying the responsibilities for contract management. Other actions include improving the use of performance data and capturing more promptly information where a client dies or moves out. Progress on implementation of these actions will be assessed by Internal Audit as part of a formal follow up review likely to be completed in 2018/19.

### **Council Tax – Partial Assurance**

The purpose of this year's council tax audit was to obtain assurance that;

- all taxable properties are identified;
- the calculation of the council tax base has been carried out accurately;
- amounts due in respect of each chargeable property are correct and promptly billed;
- arrears are promptly identified and pursued effectively.

The audit found that although many processes continue to operate effectively there is a backlog of work which could eventually impact on recovery rates and customer satisfaction with the service. Our review identified a small number of properties that could have been brought into charge earlier and not all classes of discounts and exemptions have been subject to regular review to ensure ongoing eligibility.

Actions have been put in place to address the work backlog and improvements made to the inspections process to ensure that properties are brought into charge as early as possible. The service acknowledges the need for the regular review of discounts and

exemptions and is seeking to develop technological solutions where regular review of some discounts is not practical.

### **Housing Emergency Accommodation – Partial Assurance**

The scope of this audit was to confirm that arrangements are in place to ensure that the contract is delivered in accordance with the contract specification.

The review found that recommendations made in a previous (2016) audit report had been implemented and that further action is being undertaken by Housing to continue to improve the quality of the service. However, our audit, which included an inspection to one specific property, found that:

- the provider does not carry out regular room inspections and other inspections of communal areas do not meet the requirements of the contract;
- concerns from inspections completed by council officers are not being effectively escalated and resolved at contract monitoring meetings;
- during our visit to the property concerns were identified in relation to communal areas which included health and safety issues. The provider has been notified of the issues.

Four actions have been agreed with management which include that:

- the contract monitoring framework is improved to include inspections of communal spaces, following-up where information was not available during the visit, and that all significant concerns raised through inspections are be escalated to the provider at the contractor monitoring meetings;
- contract monitoring meetings are developed and include standing items on contract compliance and health and safety.

This area will be subject to a formal follow up review during 2018/19 in order to confirm that all agreed actions have been implemented.

### **Organisational Capacity – Partial Assurance**

This audit was planned in response to the inclusion of seven individual risks within the council's strategic and directorate risk registers relating to issues associated with organisational capacity.

The purpose of this review was to provide assurance that these risks were being clearly defined and associated key controls put in place. Also, that these controls were being reviewed, monitored and modified as required and that there was evidence to show that they are working effectively.

The audit found that services have been shrinking in size but are maintaining service levels, currently reacting to demand and changes as they happen. This causes resilience issues for staff where they are dealing with increasing workloads. Insufficient evidence was found at the time of the audit that controls have been fully implemented and are working to manage all of these risks.

We also identified that the risks and issues captured on the council's risk management system in relation to capacity are not always easy to understand and need to be more

clearly defined. Many of the controls and actions identified to mitigate the risks are generic rather than addressing the specific risk. Most actions are aimed at improving the availability of resources and are not currently addressing the demand for services.

Five actions were therefore agreed with management which include:

- clarifying and simplifying the text on the council's risk management system so risks can be more easily understood;
- developing a management information process that clearly evidences and better informs directors and members of the Council on organisational capacity issues;
- developing a better understanding of the cost of services under pressure, providing a clear distinction between costs incurred to provide statutory or compliance services and additional discretionary services;
- improving workforce planning and other HR processes that support the recruitment and retention of staff and agile working.

Further work will be undertaken in this area during 2018/19, including following up with management to ensure implementation of agreed actions.

### **City Clean (External Contracts and Commercial Activities) – Minimal Assurance**

The purpose of the review was to ensure that commercial activities were supported by appropriate business plans and financial forecasts, contracts were in place with customers and there were adequate controls to ensure the service generates a surplus or breaks even. The audit also sought assurance that City Cleans own procurement processes had been in accordance with contract standing orders.

The audit report concluded minimal assurance because:

- Whilst PRG committee approval had been sought, some elements of the wider commercial waste service had not been approved by the PRG Committee as would be expected;
- a previous action was agreed to develop a business case for commercial waste and recycling activities but this has not been produced;
- there is a need to improve the administration of the commercial waste service and administrative support for the service is insufficient;
- financial information relating to the service was found to be incomplete and it cannot therefore be verified that the service will break-even in 2017/18;
- systems to manage customer data and budget information are not sufficient to meet the needs of the expanding service and signed contracts are not in place for all customer types;
- invoicing and debt management arrangements need to be improved.

Eleven actions for improvement have been agreed with management, five of these being high priority. These are that:

- a report is prepared for ELT and PRG approval, setting out the options for continued operation and growth of commercial waste collection. Following this a business plan is drafted;
- improvements are made to the budget management arrangements that allow an accurate assessment on their financial performance of the commercial waste service;
- systems to manage customer data and invoicing are improved;

- signed contracts/ agreements should be put in place with all customers;
- procurement arrangements for bought in services are strengthened.

The new Interim Assistant Director, City Environment has drafted an Improvement Programme which will form part of the City Clean modernisation programme and additional corporate support is being provided to address the recommendations in the report. A formal follow up review will be conducted by Internal Audit during 2018/19 to ensure appropriate action has been taken in relation to all control issues identified.

### **Disabled Facilities Grant (2016/17) - Grant certified**

This audit was the certification of the Disabled Facilities Grant claim for 2016/17 (£1.5 million) as required by the DCLG.

No significant issues were identified in the grant certification.

### **Transport Capital Grant, Bus Subsidy Grant, Pot Holes Grant (2016/17) – Grant certified**

The certification of three 2016/17 grant claims received from the Department for Transport. These were:

- Local Transport Capital Block Funding Grant;
- Bus Subsidy Grant;
- Pot Holes Grant.

No significant issues were identified in the grant certification.

### **EU Interreg Grant – SHINE (Claim 1) – Grant Certified**

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

The full project title is “Sustainable Housing Initiatives in Excluded Neighbourhoods”. The total project costs over the next 4 years are £370,000.

No significant issues were identified in the grant certification.

