

Subject:	Internal Audit and Corporate Fraud Progress Report		
Date of Meeting:	27 March 2018		
Report of:	Executive Director, Finance & Resources		
Contact Officer:	Name:	Mark Dallen	Tel: 29-1314
	Email:	Mark.Dallen@brighton-hove.gcsx.gov.uk	
Ward(s) affected:	All		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

1.1 The 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 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 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, 38 of the 49 audit reviews have

been completed to draft or final report stage (78%). A total of 14 audits have been finalised since our last report in January, as per table 1 below.

Table 1 – Audits finalised since the last committee meeting.

Audit	Opinion given*
Housing and Council Tax Benefits	Substantial Assurance
Strategic Construction Contract	Substantial Assurance
Youth Employability Service	Substantial Assurance
Highways Maintenance	Reasonable Assurance
CareFirst Application	Reasonable Assurance
Concessionary Fares	Reasonable Assurance
Direct Payments and Personal Budgets	Partial Assurance
Online Banking System	Partial Assurance
HRA Estate Development Budget	Partial Assurance
Major Capital Projects (Brighton Centre/ Black Rock)	Interim project review – no specific assurance level given
EU Interreg Grant- PACE	Claim Certified
School Audits x 3	Reasonable Assurance x 3

*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.

Main areas of service delivery	Outcomes delivered for the year to date
Housing Tenancy and Right to Buy Fraud	<p>A total of 18 properties have now been returned to stock (an additional 6 properties since last reported to this committee).</p> <p>A total of 36 right to buy applications have not been pursued after preventive review by the team. This is an increase in one case since the last committee.</p>
Investigating and pursuing fraud in other high priority areas	<p>Five employment investigations for the year to date have resulted in the dismissal of four employees.</p> <p>Investigations into residents parking permits have resulted in 8 permits being cancelled or returned for the year to date (no change since last reported).</p> <p>A total of 138 blue badges have been cancelled as a result of data matching and other referrals.</p> <p>Rent rebate overpayments totalling £70,000 have been identified and £9,000 in Council Tax Reduction/Council Tax Exemptions/Discounts for the year to date (no change since last reported)</p> <p>Overpayments (including duplicate payments) of £57,000 have been identified.</p>

Additions and Deletions to the approved internal audit plan

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

- Care Management System Replacement (advice and audit input).
- Corporate Welling Project (advice and audit input)

4.5 No audits have been deleted from this year's plan since last reported.

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 3 (31 December 2017), 85.2% of actions due had been implemented (see table 3 below).

Table 3 – implementation of audit actions (as at 30 September 2017)

Period to end:	Audit Recs due	Database not updated by managers	Not implemented (or less than 50% implemented)	Implemented (includes part implemented > 50%)	Implemented (%)
31 December 2017 (Quarter 3)	229	12	22	195	85.2%

4.7 This is better than the rate as reported at the end of quarter 2 (82.5%) but is lower than the target implementation rate of 90% for 2017/18. The implementation rate for high priority actions at the end of quarter 3 was 82.5% (seven actions). Four of these have now been actioned leaving three outstanding as per table 4 below.

Table 4 – high priority actions due by the 31 December 2017 not yet implemented

Audit/ Action	Dir.	Due date	Revised date	Progress and risks.
<u>Building and System Access Controls for Leavers</u> (Rec. 10) A unique reference should be built into all key systems which can be easily and quickly matched to payroll records.	F&R	31/12/17	30/6/18	IT&D have investigated the action and concluded that in its current form it is not the ideal solution from a technical, logistical and commercial standpoint. Significant work has been completed to ensure network logins are disabled in a timely manner, thereby blocking access to the vast majority of BHCC systems. This work goes a long way to address the problem but there is still a risk for systems not administered by IT&D that users are not removed from systems when they cease to work for the Council or when their role changes. IT&D has proposed a new piece of discovery work, which would look at options to solve this problem. If agreed this will take three months after which a revised action and deadline will be put in place.

Audit/ Action	Dir.	Due date	Revised date	Progress and risks.
Housing Electrical Works x2	NCB	30/9/16	To be confirmed	A separate report will be provided to this meeting.

4.8 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

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 actions taken support the robustness and resilience of the council's practices and procedures and support the council's overall financial position.

Finance Officer Consulted: James Hengeveld

Date: 14/03/2018

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: 12/03/18

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

Appendix 1

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.

Commentary on Finalised Reports

Housing and Council Tax Benefits - Substantial Assurance

This is an annual key financial systems audit, the scope of the review being to ensure:

- all benefit payments are legitimate and appropriate;
- assessment of benefits is accurate and timely;
- overpayments and write-offs are effectively managed, monitored and reported;
- regular reconciliations are undertaken between the benefits system and housing rents and general ledger systems;
- quality assurance arrangements are effective.

Key controls were found to be in place and no significant areas for improvement were identified.

Strategic Construction Contract - Substantial Assurance

This review was of the council's re-procurement of its strategic construction contract partners. The partnership comprises four key areas: the constructor, consultant quantity surveyor, consultant structural engineer and consultant health and safety advisor. It is estimated that the partnership will be required to deliver between £100m and £170m of works over the next 7 years.

The review provided assurance that contract renewal processes complied with internal procurement rules and legislative requirements. Also that decision making was transparent and that the new contract adequately reflects the council's needs for the future delivery of construction services.

There were no significant findings.

Youth Employability Service - Substantial Assurance

The Youth Employability Service (YES) provides information, advice and guidance support to academic age 16 -18 year olds (up to 25 for young people with special educational needs or who are care leavers) who are not engaged in education, employment or training (NEET) or those identified as at risk of NEET.

The scope of the review was to assess whether the service's information, performance management and budget management systems are effective.

The review found that that service performance is improving year on year and is better than national figures. There was also evidence of good practice in place and no significant areas for improvement were identified.

Highways Maintenance - Reasonable Assurance

The Council manages 624km of carriageways and 1,018km of footways. The maintenance is provided through the two key contracts; highways works and improvements and safety maintenance.

The objective of this review was to establish that effective systems are in place to ensure the service is delivered in accordance with the contract specification and requirements, that the correct payments are made and that there is effective budgetary control over the service.

A small number of areas were identified where contract management could be improved with evidence that work quality inspections have temporarily dropped below the agreed threshold. The audit also found that better record keeping associated with contract management meetings could be maintained. Appropriate actions for improvement have been agreed with management.

CareFirst Application – Reasonable Assurance

CareFirst is a critical computer system used to provide case management functionality to more than 1,000 users within Health & Adult Social Care and Families, Children & Learning and holds information that underpins the majority of services in those directorates.

The purpose of the review was to obtain assurance that there are application controls in place to ensure the completeness, accuracy, security of the system and data.

The audit concluded that application governance arrangements are in place to manage key risks, including that the system is effectively supported in-house, and properly maintained by the vendor. Effective security of the system and user accounts is also maintained.

Some areas for improvement were however identified, including the need to:

- capture risks associated with the information held within the Carefirst application within the service's risk management process;
- formally report on the outcome of the disaster recovery test and update the IT Disaster Recovery Plan;
- ensure that IT & Digital have access to the relevant service's business continuity plans;
- ensure the completeness of the tracking of user acceptance test results after upgrades.

All actions for improvement have been agreed with management as part of a formal action plan.

Concessionary Fares – Reasonable Assurance

Concessionary bus passes are issued to older persons and those with a qualifying disability. In Brighton & Hove there are approximately 42,500 active passes in issue.

The purpose of the audit was to establish that controls are in place to ensure that passes are only issued to entitled persons, to prevent and detect the fraudulent use of

passes and ensure the validity of the data underlying the fixed price contract agreement.

Whilst controls were generally found to be in place, some opportunities for improvement were identified relating to:

- strengthening processes to prevent/ detect the use of cancelled cards, or use of a card by someone who is not entitled;
- exploring alternative options for analysing and monitoring overall pass usage.

Direct Payments and Personal Budgets – Partial Assurance

Direct payments are made to individuals to meet some or all of their eligible health care and support needs and need help to stay in their own home. At time of the audit review, there were 567 direct payment recipients with forecast expenditure of £6.4m in the current financial year.

The review sought to obtain assurance that the correct amounts are paid to service users, expenditure is legitimate and that care needs are met through effective monitoring arrangements.

The review identified several areas for improvement. These were to:

- increase the percentage of care reviews carried out on an annual basis;
- ensure effective and regular scrutiny of high balances across client accounts;
- improve procedures so that all clients are regularly and consistently making their contribution towards their care;
- improve procedures for account monitoring;
- improve management of the contract for the administration of payment cards.

All of these actions were agreed with management and will be subject to follow up Internal Audit in the future.

Online Banking System – Partial Assurance

The Lloyds Link system provides the Council with access to online corporate banking. A limited number of users have access to the corporate bank account including processing treasury management transactions. In addition a much larger group of users access the system to manage schools bank accounts.

The review was a follow-up of a 2016/17 audit which concluded limited assurance.

The audit found that only 6 of the previously agreed 15 actions have been fully implemented, although another 6 of the remaining actions had been partly implemented.

The areas for improvement that still need to be addressed relate to system security controls and the management of system user access profiles. These actions have all been agreed by management, but some are dependent on the implementation of system upgrades by the council's bank to be completed.

HRA Estate Development Budget – Partial Assurance

The Council sets aside £0.5m per annum as HRA Estate Development Budget that is available to fund community projects that result in an improvement to council housing owned buildings, community facilities, land or the local environment. It also funds improvements that benefit the community and the quality of life of tenants.

The scope of the audit was to provide assurance that:

- governance structures are in place which ensure that bids match council priorities and are supported by and will benefit the local community;
- controls ensure projects are realistic and value for money;
- delivery of projects is monitored to ensure they are completed on time, to budget and to the agreed specification;
- cost variations are approved and invoices are matched to estimated costs.

A number of areas for improvement were reported and agreed as follows:

- that effective checks on project quotes and final costs are introduced;
- there are better controls over cost variations;
- that better records are kept of meetings where bids are decided on by residents;
- that bid forms are supported by appropriate detail to be progressed to Area Panels including estimated costs, dimensions, photographs and plans and consultations undertaken.

All actions for improvement have been agreed with management and will be subject to future follow up by Internal Audit to ensure they are implemented.

Major Capital Projects (Waterfront) – Interim Project Review – no specific assurance level given

This is a high profile project with the objective of replacing the Brighton Centre with a 21st century arena and conferencing venue at the derelict Black Rock site next to the Marina. The project is dependent on the sale of the Brighton Centre to the owners of the Churchill Square shopping centre for redevelopment.

This was an interim project review to obtain assurance that effective programme and project governance arrangements are in place, key project risks are appropriately managed and that financial management arrangements are fit for purpose.

Key controls were identified as being in place, including an assessment of project benefits and alignment to council objectives, an appropriate governance structure, stakeholder engagement strategy and a project plan timeline.

In addition, the following areas for improvement and enhancement of controls as the project progresses were agreed;

- the project team to continue to ensure that project risks are identified, documented, and evaluated;
- additional funding sensitivity analysis to be undertaken, with any significant findings incorporated in the project risk register;

- a full record of project costs to be collated, maintained, and reported to project board.

Further audit work will be undertaken as this project progresses.

EU Interreg Grant – PACE (Claim 2) – Grant Certified

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

The full title of the project is Providing Access to Childcare and Employment. The total value of the project between 2017 to 2020 is approximately £510,000.

No significant issues were identified in the grant certification.

School Audits

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 since last reported. These schools were:

Cardinal Newman Catholic School – Reasonable Assurance
 Hertford Infant & Nursery School – Reasonable Assurance
 St Martins CE Nursery & Primary School - Reasonable Assurance

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

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

- Improving budget planning, including effective communication of plans and restructuring.
- Obtaining declarations of interest from all members of the senior leadership team.
- Ensuring that the reconciliation process between the school's financial management system and the bank statement is fully independent.
- Communicating to stakeholders the purpose and balances of voluntary funds held.
- Ensuring that there is evidence of compliance with HMRC IR35 regulations with regard to the employment of third parties.
- Ensuring evidence is retained to confirm that pre-employment checks (references and qualifications) had been undertaken for new starters on all occasions.
- Implementing improvements in income reconciliation processes.

- Making sure that purchase orders are always raised for goods or services so that there is evidence of authorisation before good and services are delivered.