

Brighton & Hove City Council

For general release

Meeting: Overview and Scrutiny Organisation Committee

Date: 17th November 2003

Report of: Deputy Chief Executive and Director of Corporate Services

Subject: Internal Audit Progress Report 2003/04

Ward(s) affected: All

1. Purpose of the report

- 1.1 This report summarises the work of Internal Audit Services during the first half of the financial year 2003/04. It indicates the reviews undertaken in each directorate, identifies the principal themes arising from the reviews and the implications for the City Council.
- 1.2 The Annual Audit Report for 2003/04 will be issued in June 2004 and will provide the opinion of the Head of Internal Audit on the adequacy and effectiveness of internal control and risk management processes within Brighton & Hove City Council. For the first time this report will also provide separate audit opinions for each directorate.

2. Recommendations

- 2.1 Members are asked to note the contents of this report and progress made in achieving the Internal Audit Plan for 2003/04 and some of the key issues.

3. Information/background

- 3.1 The Accounts and Audit Regulations 2003 require every local authority to maintain an adequate and effective internal audit service. The City Council has delegated this responsibility to the Chief Finance Officer.
- 3.2 The Annual Internal Audit Plan sets out the coverage required to meet the requirements and add value to the City Council. The plan for 2003/04 was reviewed, discussed and agreed with senior managers and members, to assist in identifying key risk areas and areas of concern. The plan was approved in March 2003 by the Chief Executive and Chief Finance Officer, and submitted to OSOC in July 2003.

4 Management Summary

- 4.1 The overall conclusion drawn from the various audit reviews undertaken during the first six months, is that whilst the majority of systems and processes are operating adequately, the design of controls has not always kept pace with change and thus has left the City Council exposed to a degree of risk.
- 4.2 Where issues (e.g. control weaknesses) have been identified, recommendations have been made to address the issues and management has generally welcomed these. At this stage of the year there are no matters of significance where management responses are outstanding, that need to be drawn to the attention of members.

5 Internal Control Assurance

- 5.1 During the first half year, Internal Audit significantly contributed to the development of the Statement of Internal Financial Control for 2002/03, which was signed by the Chief Finance Officer and included in the Statement of Accounts. This was an expectation of recommended accounting practice.
- 5.2 Following the Accounts and Audit Regulations 2003, a wider statement on internal control will be required for the current financial year. The Chief Executive and/or Leader of the City Council will sign this. Reliance will be primarily be placed on the work of Internal Audit to inform this.

6 Progress Against Internal Audit Plan 2003/04

- 6.1 Following a 40% staff vacancy level in 2002/03, during the first half year Internal Audit were successful in making five appointments to long term vacant positions.
- 6.2 This improved vacancy factor is reflected in the performance against the Internal Audit Plan. For the first half-year 810 direct days were delivered or 38.5% of the plan days for the year.

7 Internal Audit Reviews

The following are internal audit reviews carried out and reported during the first half of year under each directorate.

CHILDREN, FAMILIES & SCHOOLS

Supply Teachers

- 7.1 This audit examined the arrangements relating to the employment of supply teachers by the City Council. Current spending is around £3m per annum to provide cover for absence from for example, illness, maternity and training needs. The City Council operates a partnership with a preferred provider. Recommendations included improving contractual arrangements with the preferred provider and, risk assessment where high levels of supply cover were identified.

Student Support

- 7.2 This audit examined the administrative systems and processes with regard to awards to students including mandatory awards, maintenance grants, information exchange, and payments control. Recommendations were made to improve the quality control of applications processed, retention and security of prime documentation, implications of legislation on the service including human rights and data protection acts.

Adult Learning

- 7.3 During 2002/03 there was substantial change to the service including re-organisation and the role of the Learning Skills Council. This audit was carried out at the request of management to support them in the change and provide assurance. The conclusion of the audit was that the systems and processes support the main aims and objectives of the service.

School Meals – Client Contract Unit

- 7.4 The review examined the arrangements under the five-year contract with the provider. The outcome of the audit was providing a high level of assurance over the controls operated. Minor audit recommendations included control of income and reconciliation.

Schools

- 7.5 For the first half-year, six reviews of individual schools by way of visits were carried out. Only one of these was found to operate with weak

controls and management action is currently being taken to rectify this. Recommendations were generally made to improve in particular, governance and administration arrangements operating at all the schools reviewed.

COMMUNICATIONS & DEMOCRATIC SERVICES

Urban Traffic Control System

- 7.6 The Siemens UTC system provides a central control and monitoring for junction and pedestrian controls (i.e. traffic lights). Although no direct financial risk, audit recommendations we made to management, in particular improvements to security over unauthorised access and back-up/contingency arrangements to ensure continuity of traffic control.

CORPORATE SERVICES

Recruitment & Retention

- 7.7 Effective recruitment and retention is critical to the successful and continuing delivery of services. Factors such as the current job market for certain professions, under resourcing and information system changes have impacted on the level of risk.
- 7.8 The review found many processes evolving to reflect the structure of City Council. Recommendations were made to make these effective for service delivery.
- 7.9 Gatekeeping controls over recruitment are important in providing the “first line of defense”. Areas such as criminal records checks, child protection and health checks were examined and we are working with managers for improvements

Redundancy & Early Retirement

- 7.10 Redundancy and early retirement can represent a significant cost to the Council and the Pension Fund. There needs to be a clear business case to the Council including economic reasons. The audit found that arrangements are operating within a well-defined control framework. Decisions were found to be well documented, effective monitoring and accurate calculations. Recommendations were made for greater financial evaluation.

Secondary Employment

- 7.11 This audit recommended substantial improvements over the control of secondary employment by employees of the City Council, including effective declaration and approval to avoid any conflict of interests and non-compliance with working directives.

Accounting for Support Service Charges

- 7.12 The need to provide efficient and effective support services has been recognized together with charges that accurately reflect the costs incurred and not be detrimental to front line operational services. Recommendations were made to improve the role that service providers and users play in the process.

Treasury Management

- 7.13 Loans and investments involve high value transactions and therefore adequate controls are critical to avoid any potentially high financial losses to the City Council. This audit provided full assurances to management and praised the high level of control.

Pensions Administration

- 7.14 This audit examined arrangements at a local level for a client base of 7,000 staff and payments to the authority's responsible for pensions of £24m. Issues and potential future problems were brought to the attention of management many outside the control of the service.

Corporate Governance Arrangements

- 7.15 Following the introduction of a local code in 2002/03 and the CIPFA/SOLACE framework, this review was carried out as a gap analysis against the five key principles. The commitment of management to robust corporate governance was evident from the review and to keep pace with constant change.

Income Generation

- 7.16 The internal audit work carried out is part of a major corporate review of opportunities for additional income generation. The first part recently completed was to identify action taken from a corporate review carried out two years ago. Although some action has been taken, there clearly exists opportunities to generate income. The results have been fed into the next

stage, which will include reviewing further opportunities arising from the Local Government Act 2003.

Debtors

- 7.17 The amount of debt collected through the Council's main debtors system is in excess of £30m per annum. The audit was carried out as part of our annual review of fundamental financial systems. Substantial assurance was provided over the control of debt collection. We made recommendations to make improvements in the use of information technology and to reduce the level of arrears, including opportunities for improved use of ICT in debt collection.

Corporate Credit Cards

- 7.18 In common with many other local authorities, the City Council operates a corporate credit card scheme based on business needs of its officers. This audit was a planned review to examine the use and associated risks including reputational. The review made significant recommendations to introduce effective conditions over issue and use.

HOUSING & CITY SUPPORT

National Non Domestic Rates (NNDR)

- 7.19 This is a major area of tax collection nationally set but collected locally, paid into a national pool. The audit examined in depth charitable relief, following recent guidelines issued by the Office of the Deputy Prime Minister (ODPM) particularly mandatory and discretionary relief.
- 7.20 Although the use of the information system for recovery action was commended, opportunities were further identified for enhancing the use of information technology.

Housing Benefits

- 7.21 The benefits service currently processes approximately £29k benefits claims per annum and pays out £70m. We have undertaken a full evaluation of the systems and processes. The outcome of the audit was twofold. Firstly to provide assurance on the existing systems and process and secondly to assist service management in meeting future requirements and changes.

Caldicott Standards

- 7.22 As a result of Caldicott Committee review of patient information in the NHS, standards were introduced and their use was extended to Councils with social care responsibilities. We have provided support to management during the implementation of the standards and carried out a gap analysis of level of compliance. The audit made a number of recommendations and we have been requested to carry out the same audit on an annual basis.

Community Care

- 7.23 This audit was requested by management following concerns over increasing budget pressures from an area of high expenditure and demand driven. We made recommendations to improve management arrangements and decision-making that should control the expenditure and ensure limited resources are targeted where most needed.

OLM CareFirst System Application

- 7.24 A critical information system to the City Council's Adult Social Care is the OLM CareFirst Application. Following management concerns the review was carried out to examine the security and control provided by the system over the confidentiality of client data. A large number of recommendations were made to reduce the level of risk and provide a reliable platform for service delivery. These included interface requirements, system parameter configuration and improved training resources.

ENVIRONMENT

On Street Parking Services Contract

- 7.25 The parking services contract includes IT provision, parking enforcement, penalty charge notices processing and vehicle removal. We worked closely with the Parking Manager and improvements were made to the monitoring and control to improve performance and income generation.

8 Anti Fraud and Corruption

- 8.1 The following anti fraud and corruption work has been carried out in the first half year:
- A total of 11 investigations carried out of suspected fraud and irregularities in accordance with the Council's Anti Fraud and Corruption Policy
 - Providing fraud awareness training to groups of managers

- Undertaking a National Fraud Initiative (NFI) exercise coordinated by the Audit Commission, so far identified potentially £250K of housing benefit overpayments. Further investigatory work is being carried out and determining prosecutions
 - Expansion of National Anti Fraud Network to 185 authorities for Southern England and Wales. The City Council hosts this service
- 7.2 Internal audit from time to time have to carry out some surveillance as part of our investigations into suspected irregularities. As a consequence we have to ensure we comply with the Regulation of Investigatory Powers Act (RIPA). New processes and procedures were recently introduced to ensure we are compliant.

9 Advice and Support to Senior and Operational Management

- 9.1 Responding directly to requests or as part of project/working groups we have provided a substantial amount of advice and support. Examples include performance management, CPA, procurement, PFI etc. Internal audit also plays a key role in advising members of TMT, in particular the Chief Executive, Deputy Chief Executive and Chief Finance Officer.

10 Customer Feedback

- 9.1 To monitor the quality of the audit work provided and to gauge from our customer what they think of the service delivered, we use customer satisfaction questionnaires. These are issued at the end of each audit.
- 9.2 Customer feedback on work delivered continues to be positive. This reflects both the quality of our work and its focus on key risk areas and meeting the needs of customers
- 9.3 For the first six months, a 60% response rate was achieved to questionnaires issued. 92% of our customers rated our work as either very good or good. 2% rated our work just adequate and follow-up action was taken.

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<p>Financial implications There are no financial implications arising directly from this report.</p>
<p>Legal implications There are no legal/Human Rights Act implications arising directly from this report.</p>

<p>Corporate/Citywide implications There are no implications arising directly from this report.</p>	<p>Risk assessment The internal audit plan is based on a full risk assessment covering control environment, financial aspects, service delivery and statutory requirements. At the start of each audit, relevant areas of risk are discussed with the responsible manager to assist in the focus of the audit work.</p>
<p>Sustainability implications There are no direct environmental implications arising from this report.</p>	<p>Equalities implications There are no equalities implications arising directly from this report.</p>
<p>Implications for the prevention of crime and disorder There are no implications for the prevention of crime and disorder arising from this report.</p>	

<p>Background papers</p> <ul style="list-style-type: none"> • Internal Audit Plan 2003/04 • Individual Internal Audit Reports for period April – September 2003 • Accounts & Audit Regulations 2003 • CIPFA Code of Practice for Internal Audit in Local Government 2003
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