

<b>Subject:</b>	<b>Internal Audit and Corporate Fraud Progress Report</b>		
<b>Date of Meeting:</b>	<b>7 March 2017</b>		
<b>Report of:</b>	<b>Executive Director, Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Graham Liddell</b>	<b>Tel: 29-1323</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 provide assurance to the Audit & Standards Committee that:
- the internal audit and corporate fraud teams are delivering the audit and corporate fraud strategy and plan for 2016/17;
  - 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 key issues identified and action being taken;
  - progress made by management in implementing audit recommendations.

**2. RECOMMENDATIONS**

- 2.1 That the Audit & Standards Committee notes the report.

**3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The Audit & Standards Committee approved the revised Internal Audit and Corporate Fraud Plan on 15 November 2016. This comprised:
- 1,100 audit days covering:
    - audit reviews based on assessment of risk;
    - following up progress on implementing audit recommendations.
  - 475 anti-fraud and corruption days for:
    - reviewing and updating of fraud policies;
    - fraud awareness and publicity;
    - data matching;
    - investigating and pursuing fraud focused on high priority areas.

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

##### Progress against the audit plan

- 4.1 Internal audit remains on target to deliver 90 to 95% of the revised audit plan. Key findings since the January Audit & Standards Committee are set out in table 1.

**Table 1 – Key audit findings (since January Audit & Standards Committee)**

<b>Audit report</b>	<b>Assurance rating</b>	<b>Key issues</b>	<b>Agreed management action</b>
Bank reconciliations	Substantial	Significant improvement since previous report which assessed bank reconciliations as “limited assurance” due to delays in resolving unreconciled items.	n/a
Purchasing cards	Limited	Key controls to identify inappropriate use of purchasing cards were not working effectively.  Whilst the audit did not identify any inappropriate use and the total expenditure is relatively low (less than £500k in 2015/16) the absence of effective controls could expose the council to both financial and reputational loss.	All recommendations agreed on or before 31 March 2017.
Schools audits	Substantial (1) Reasonable (3) Limited (2)	Reports issued to each school audited.  Key themes communicated as part of termly schools bulletin issued direct to governors.	Recommendations agreed with individual schools.

## Progress against the counter fraud plan

4.2 The Corporate Fraud Team is on target to deliver its plan for 2016/17. Developments since the January Committee meeting are set out below.

Area of fraud	Developments since January Audit & Standards Committee
Counter-fraud framework	No further developments. This is in place and being used.
Fraud awareness and publicity	<p>The council's first tenancy amnesty ended on 31 January:</p> <ul style="list-style-type: none"> <li>• six council properties were returned to the council</li> <li>• the Corporate Fraud Team has also received an increase in referrals from members of the public who were concerned that specific council dwellings might be subject to fraud.</li> </ul> <p>We are currently evaluating the lessons from the amnesty including considering whether to run further amnesties in 2017/18 onwards.</p>
Data matching	<p>In January 2017, following submission of data to the National Fraud Initiative (NFI), we have received data match reports which set out more than 21,000 potential matches of which 2,300 have been recommended for investigation.</p> <p>The Corporate Fraud Team has reviewed the reports for quality and is co-ordinating the review by service managers.</p>
Investigating and pursuing fraud focused on high priority areas	<p>Council dwellings</p> <ul style="list-style-type: none"> <li>• 20 properties returned to stock</li> <li>• 21 potentially right to buy applications prevented after checks carried out</li> </ul> <p>Blue badges (for 2016 calendar year)</p> <ul style="list-style-type: none"> <li>• Warning letters: 160</li> <li>• Community resolutions: 173</li> <li>• Prosecutions:44</li> </ul>

## Progress made in implementing recommendations

4.3 We have received confirmation that 86% of recommendations due to be implemented by 31 December 2016 had been implemented (see table 2).

**Table 2 – implementation of audit recommendations (as at 31 December 2016)**

Period to:	Audit Recs due	Database not updated by managers	Not implemented (or less than 50% implemented)	Implemented (includes part implemented > 50%)	Implemented (%)
31 Dec 2016	350	42	7	301	86%

4.4 This is better than the rate reported at a similar time last year (82%) but is slightly lower than the final implementation rate of 88% for 2015/16.

4.5 We have not been provided with progress for 12% of recommendations and have treated these as not implemented. We are currently reminding managers to provide updates and we expect performance to improve as a result.

4.6 The high priority recommendations that have not been yet implemented are set out in table 3.

**Table 3 – high priority recommendations due by 31 December not implemented**

Audit/Recommendation	Directorate	Due date	Progress
<p><b>Residents parking permits</b></p> <ul style="list-style-type: none"> <li>All applications (whether physical or electronic) should be adequately retained to enable easy retrieval in the event that this is required. This should also be extended to include copies of any proofs supplied in support of an application.</li> <li>All renewal applications should be validated (electronically if possible) to ensure evidence of ongoing eligibility is confirmed. Should the service move towards awarding permits with no expiry through a Direct Debit process, verification checks should still be undertaken every 12</li> </ul>	Economy, Environment and Culture	30 Jun 2016	<p>The delay against the original due date reflects that a decision was made to procure a new integrated software solution which required a detailed procurement process and contract variation.</p> <p>We are currently carrying out a data matching exercise to identify ineligible permit holders and a follow up audit. We will report back to the July 2017 Audit &amp; Standards Committee.</p>

<p>months. Any applications which cannot be validated electronically should be subject to robust address proof checks, both at initial application stage, and on every renewal.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>			
<p><b>Temporary accommodation</b></p> <ul style="list-style-type: none"> <li>• The housing service needs to set out clearly an overview of the process and responsibilities for managing voids including monitoring, clearing, escalating voids and recovering void losses. This should be set out in a formal procedure document.</li> </ul>	<p>Neighbourhoods, Community and Housing</p>	<p>26 Aug 2016</p>	<p>This area is now subject to a follow up audit and will be reported to the July 2017 Audit &amp; Standards Committee.</p>
<p><b>Access controls (follow up)</b></p> <ul style="list-style-type: none"> <li>• Processes to ensure access [for staff who no longer work for the council] to external systems is removed should be developed.</li> <li>• Process to pass info on suspensions of school staff to schools service desk should be developed</li> </ul>	<p>Finance and Resources</p>	<p>31 Dec 2016</p>	<p>Developing a permanent solution to these issues is a long-term project and is further discussed in appendix one which will be presented by the Chief Technology Officer.</p> <p>In respect of these specific actions, interim measures have been put in place:</p> <ul style="list-style-type: none"> <li>• responsibility for informing ICT of staff who no longer working at the authority rests primarily with the relevant service manager.</li> <li>• HR notifies ICT of suspended staff.</li> </ul>

<p><b>IT waste disposal</b></p> <ul style="list-style-type: none"> <li>Review, implement, and formally disseminate the ICT Waste Disposal Policy and ensure that operational guidance documentation is aligned to the policy requirements.</li> <li>Undertake a formal risk assessment of the ICT waste disposal process and policy to identify risks to information security. This also includes risk of reputational damage as well as those arising from any punitive fine levied by the Information Commissioners Office</li> </ul>	<p>Finance and Resources</p>	<p>31 Oct 2016</p>	<p>The “ICT Equipment Disposal Policy” has been written, reviewed by the Information Governance Board and will be released as part of the Information Governance Policy suite before the end of March 2017</p> <p>This has delayed the undertaking of the formal risk assessment, which needed to be carried out in the context of the new policy. This will now be carried out over the next month.</p> <p>Further information has been provided as appendix one to this agenda item which will be presented by the Chief Technology Officer.</p>
<p><b>Corporate procurement</b></p> <ul style="list-style-type: none"> <li>Actions should be agreed to monitor and provide assurance on compliance with Contract Standing Orders</li> </ul>	<p>Finance and Resources</p>	<p>30 Apr 2016</p>	<p>The Procurement Team monitors compliance to Contract Standing Orders for procurements more than £75,000.</p> <p>Subject approval of the 2017/18 budget by council, the service will be investing £200k in Contract Management support from April 2017 for 3 years.</p>

4.7 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 2016/17 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: 10/02/17*

### 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.

*Lawyer Consulted: Victoria Simpson*

*Date: 13/2/17*

### Equalities Implications:

- 7.3 There are no direct equalities implications.

### Sustainability Implications:

- 7.4 There are no direct sustainability implications.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Progress on information governance issues and implementing related audit recommendations

### **Documents in Members' Rooms**

1. None

### **Background Documents**

1. None

