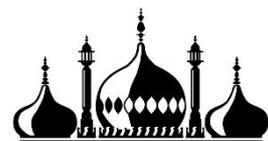


INTERNAL AUDIT ANNUAL REPORT & OPINION 2018/2019



**Brighton & Hove
City Council**

1. Internal Control and the Role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

1.3 Annually the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 The Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the departmental and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 In accordance with the audit plan for 2018/19, a programme of audits was carried out covering all Council departments and, in accordance with best practice, this programme was reviewed during the year and revised to reflect changes in risk and priority. This has included responding to and investigating allegations of fraud and other irregularities.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit and Standards Committee as part of our periodic internal audit progress reports.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable ¹assurance that Brighton & Hove City Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

3.2 Further information on the basis of this opinion is provided below but in summary, the results of internal audit activities during the year have been generally favourable, albeit, with a relatively high number of partial assurance opinions issued, along with two reviews resulting in minimal assurance (see below). Whilst it remains important that weaknesses arising from these reviews are addressed as a priority by management, neither of the

¹ This opinion is based on the activities set out in paragraph 4 below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the council within a single year.

minimal assurance audits are considered sufficiently significant in terms of overall organisational governance to impact on our reasonable assurance annual audit opinion.

3.3 Where improvements in controls are required as a result of any of our work, we have agreed appropriate remedial action with management.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

- All audit work completed during 2018/19, planned and unplanned;
- Follow up of actions from previous audits;
- Management’s response to the findings and recommendations;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the Council’s systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service’s performance.

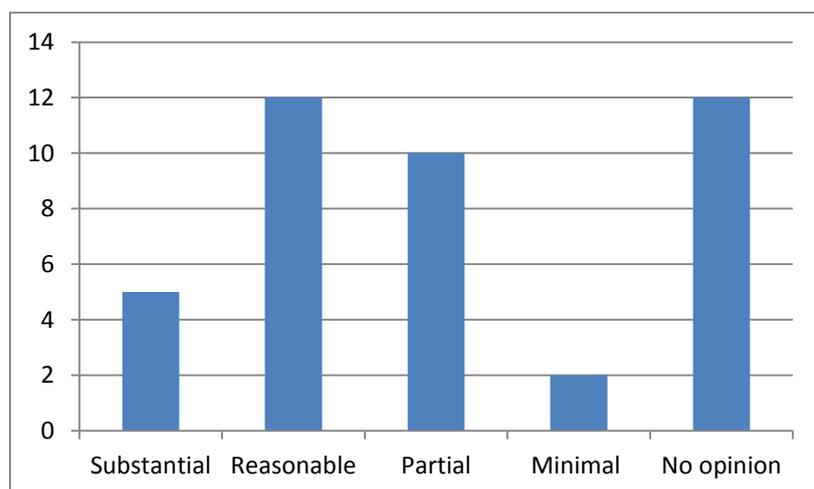
4.2 No limitations have been placed on the scope of Internal Audit during 2018/19.

5. Key Internal Audit Issues for 2018/19

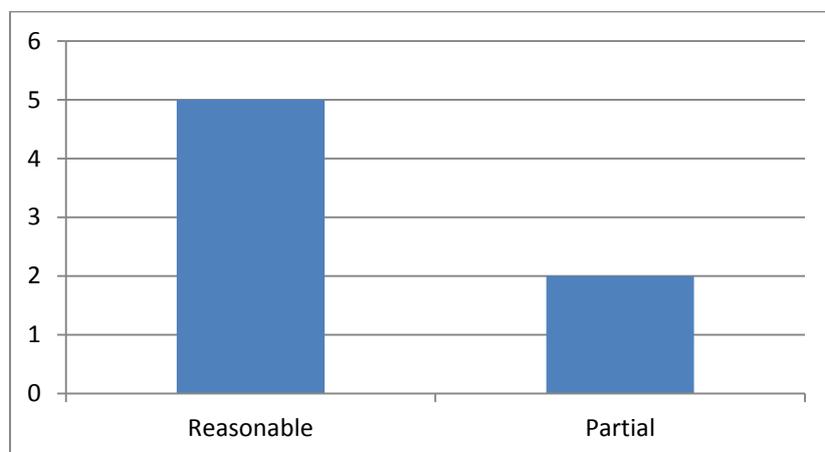
5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council’s Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The following graphs provide a summary of the outcomes from all audits finalised during 2018/19:

Non-Schools Audit Opinions



Schools Audit Opinions



5.3 A full listing of all completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. Whilst the results of all audit work completed is reported to ELT and Audit and Standards Committee throughout the year, those reviews with minimal assurance have been summarised below for completeness:

- **Brighton Centre** – An unplanned audit review was requested at the Brighton Centre because it had been identified that a group of staff had been underpaid for various shifts relating to weekend /overtime working and the taking of leave during these times. Our review therefore focussed on obtaining assurance over arrangements for rostering and recording of worktime, claiming and approving overtime and other enhancements and pay calculation.

The audit identified a number of areas where controls were considered inadequate, including overly complex payment mechanisms for unsocial hours, overtime and other local extras, local developed databases not working correctly and weak certification arrangements. The review also found that some staff were working significant and regular amounts of overtime with locally determined arrangements for lieu time. New processes have been put in place to ensure that these issues are addressed as a matter of priority and will be subject to follow-up audit early in 2019/20.

- **Digital First Follow-up** – the Digital First programme was formed in 2016, with key outcomes including reducing service costs and improving customer experience. The programme investment budget was £5.3m over three years with anticipated recurring savings of £5.65m per annum.

A previous internal audit report in this area concluded partial assurance, with a range of actions being agreed with management. As a result, a follow up review was carried out to assess implementation of these previously agreed actions. Unfortunately, inadequate action had been taken by management and controls were not found to be effective in delivering the intended project outcomes. Consequently, only minimal assurance could be provided with revised actions focussing on improvement for the remainder of the project

and also lessons to be learned for future modernisation projects to help prevent repetition. A more detailed overview of this work is provided within the summary of our quarter 4 work attached to this report.

5.4 In addition to the above, a total of ten non-schools audits received partial assurance opinions within the year as follows:

- Housing Allocations
- Debtors
- Debtors – Miscellaneous Account Issue
- Orbis Budget Management
- Royal Pavilion and Museums
- General Data Protection Regulations
- Care Leavers
- Home Care
- Extra Care Housing
- Adult Social Care Income

5.5 Whilst actions arising from these reviews will be followed up by Internal Audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control. As at 31 March 2019, of the 27 high risk recommendations issued and due by the end of the 2018/19, it is pleasing to report that all had been implemented within the agreed timescales.

5.6 At the time of producing this report, a total of six planned reviews remained in progress, all of which will be completed during the first quarter of 2019/20. The finalisation of these reports will result in 100% completion of the 2018/19 internal audit plan.

Key Financial Systems

5.7 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems, both corporate and departmental. Of those completed during 2018/19, all of these have resulted in either substantial or reasonable assurance being provided over the control environment, with the exception of the Debtors System (see above). Shortfalls within processes in this area are acknowledged by management and, in addition to implementing the agreed audit actions arising from our review, a Debt Management Improvement Project is now underway.

Other Internal Audit Activity

5.8 During 2018/19, internal audit have continued to provide advice, support and independent challenge to the organisation on a risk, governance and internal control matters across a range of areas. These include:

- Orbis Customer Board;
- Business Intelligence Group;
- Corporate Risk Assurance Group;

- Whistleblowing Co-ordination Meetings;
- Business Continuity Group;
- Information Governance Board.

Anti-Fraud and Corruption

5.9 The Orbis IA structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality; specialisms; and sustain a strong sovereign focus. A key strand of the structure was the formation of a counter fraud team that would deliver specialist fraud resource across the partnership.

5.10 During 2018/19, the counter fraud team logged 25 allegations under the Council's Anti-Fraud and Corruption Strategy, in all cases identified through the Council's confidential reporting hotline, data matching or notifications from departments. As a result of the allegations, 11 investigations were undertaken, with the remainder being referred to local management, another local authority or assessed as requiring no further action. (N.B. These numbers exclude allegations and investigations of housing tenancy, council tax and housing benefit fraud – see 5.11 below).

The following provides a summary of the investigation activity undertaken by Orbis Internal Audit in the last 12 months:

- An investigation was conducted following an allegation of irregularities in a contract letting process (Street Lighting). As a result, one member of staff was dismissed on the basis of conduct issues and an internal control report was issued to help avoid future repetition;
- An investigation was carried out in relation to an alleged cash loss from council premises. Whilst it was not possible to prove the extent of any loss, one member of staff subsequently resigned;
- An allegation of favouritism within the Housing Service was subject to investigation. Whilst no evidence of any irregularity was identified, improvements to the declaration of interest process within the service have been implemented following the findings of the investigation;
- A salary overpayment was investigated in order establish the circumstances and to help ensure appropriate controls are in place to avoid future repetition.

Seven investigations are ongoing at the time of writing this report.

5.11 In addition to the above, a key focus area remains housing tenancy fraud and council tax discounts. Tenancy fraud investigations resulted in 19 council properties being returned to the Council's stock in the year, thereby making them available for people in genuine housing need. In addition, three tenants were removed from the housing waiting list as a result of investigations and another 40 as a result of national data matching. Counter fraud work also identified council tax reduction adjustments of £9,000, together with a further £21,000 in respect of reductions to council tax discounts. Housing and other investigations identified £18,000 of housing benefit overpayments which were referred to the Department of Work and Pensions for investigation.

5.12 Any internal control weaknesses identified during our investigation work are reported to management and actions for improvement are agreed. This work is also used to inform future internal audit activity.

5.13 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff. Through data matching and work with officers in service departments, 74 concessionary travel passes were cancelled, reducing the fraud risk of having these passes in circulation and the financial risk to the Council of these passes being used. Data matching also enabled the identification of £42,000 of overpayments in respect of clients who had passed away but for whom payments were still being made for residential care. During 2018/19 additional effort has been spent aligning the policies and procedures to ensure the Counter Fraud Team deliver a consistent standard of service across the Orbis partners. Progress over the last 12 months is outlined below:

Priority	Progress to date
Reactive investigations	The counter fraud team is responsible for assessing and evaluating fraud referrals received by each sovereign partner, and then leading on subsequent investigations. The team have implemented a coordinated approach to assessing and logging referrals and adopted consistent procedures for recording investigations. During the 12 month period to date, there have been several investigations across the partnership which have been resourced through a mixture of the counter fraud team and sovereign audit teams supported by advice and direction from the counter fraud team.
NFI Exercise	The counter fraud team have taken on responsibility for the coordination and submission of datasets at each authority. The NFI Key Contacts are members of the counter fraud team to ensure a consistent approach is followed and good practice is shared across all partners. Results from the matching exercise were received in Spring 2019 and the counter fraud team is liaising with partner authorities to review, prioritise and investigate flagged matches.
Counter Fraud Policies	Each Orbis partner has in place a counter fraud strategy that sets out their commitment to preventing, detecting and deterring fraud. The counter fraud team is reviewing the sovereign strategies and aligning with best practice to ensure a robust and consistent approach to tackling fraud. As a priority the Anti Money Laundering policies have been reviewed and updated to reflect recent changes in legislation.
Fraud Risk Assessments	Fraud risk assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified.
Fraud Response Plans	The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector and provide a proactive counter fraud programme. These have been reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will form the basis of planned proactive work for 2019/20 and include an increased emphasis on data analytics.
Fraud Awareness	The team have been rolling out a programme of fraud awareness workshops to help services identify the risk of fraud and vulnerabilities in their process and procedures. Workshops have been delivered to several teams across the partners from a mix of services.

Amendments to the Audit Plan

5.14 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews were added to the original audit plan during the year:

- Digital First (Follow-up)
- Royal Pavillion and Museums
- Brighton Centre (pay issue)
- Street Lighting
- Orbis Budgetment Management
- Debtors Miscellaneous Account Issues
- Rough Sleeping Statistics
- EU Grant - BioCultural Heritage Tourism

5.15 In order to allow these additional audits to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- Troubled Families Grant Claim – No longer requires certification
- Disabled Facilities Grant - No longer requires certification
- Able and Willing (Follow-up) - Deferred to 2019/20
- Housing Local Delivery Vehicle/BHSCH (Follow-up) - Deferred to 2019/20
- On and Of Street Parking - Deferred to 2019/20
- Parking Permits - Deferred to 2019/20
- Mobile Devices Migration - Deferred to 2019/20
- IT & Digital Projects - Deferred to 2019/20
- System Access Controls
- Learning Disabilities

6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2018/19, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self-assessment in 2019:

- Purpose, authority and responsibility;

- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of the SWAP review and our latest self-assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our quality assurance and improvement plan.

Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post audit questionnaires, discussions with key stakeholders throughout the year and annual consultation meetings with Chief Officers.

6.5 Significantly, we have completed 92% of the 2018/19 audit plan, exceeding our target of 90%. As reported in 5.6 above, a small number of outstanding reviews were nearing completion at year end, with all reports due to be finalised early in quarter 1 of 2019/20.

6.6 Internal Audit will continue to liaise with the Council's external auditors (now Grant Thornton) to ensure that the Council obtains maximum value from the combined audit resources available.

6.7 In addition to this annual summary, ELT and the Audit and Governance Committee will continue to receive performance information on internal audit throughout the year as part of our quarterly progress reports and corporate performance monitoring arrangements.

Internal Audit Performance Indicators 2018/19

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit & Standards Committee on 27 March 2018.
	Annual Audit Report and Opinion	By end July	G	Approved by Audit & Standards Committee on 24 July 2018.
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	92%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	Last independent external assessment awarded highest level of conformance. Confirmed in most recent self-assessment.
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified.
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	87%

Summary of Opinions for Internal Audit Reports Issued During 2018/19

Substantial Assurance:*(Explanation of assurance levels provided at the bottom of this document)*

Audit Title	Department
Payroll	F&R
Council Tax	F&R
Wellbeing Project	F&R
Budget Management	F&R
Cash and Banking	F&R

Reasonable Assurance:

Audit Title	Department
Creditors	F&R
NNDR	F&R
Housing and Council Tax Benefits	F&R
Personal Service Companies and Use of Consultants	F&R
Seafront Investment Strategy (Strategic Risk number 23)	EEC
St Bartholomew's School (Follow-up)	FCL
Fairlight Primary School (Follow-up)	FCL
Brunswick Primary School	FCL
St Mary Magdalen's Primary School	FCL
Bevendean Primary School	FCL
Supported & Semi-Independent Accommodation	FCL
Nursery Services	FCL
Community Equipment Service	HASC
Front Door for Families (Early Help Hub)	FCL
Brighton & Hove Inclusion Support Service	FCL
Care management system re-procurement.	FCL & HASC
Housing Management System Replacement	NCH

Partial Assurance:

Audit Title	Department
Housing Allocations	NCH
Debtors	F&R
Orbis Budget Management (Addition to plan)	F&R
Royal Pavilion and Museums (Addition to plan)	EEC
GDPR	F&R
Disaster Recovery	F&R
Hove Park Secondary School	FCL
Downs View School	FCL
Care Leavers	FCL
Home Care	HASC

Extra Care Housing	HASC
Adult Social Care Income	HASC

Minimal Assurance:

Audit Title	Department
Digital First (follow-up)	NCH
Brighton Centre (Addition to plan)	EEC

Other Audit Activity Undertaken During 2018/19 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
EU Grant - Sustainable Housing Initiatives in Excluded Neighbourhoods (SHINE)	NCH
EU Grant – Solarise (Addition to plan)	NCH
EU Grant- Providing Access to Childcare and Employment (PACE)	FCL
EU Grant - Shaping Climate change Adaptive PlacEs (SCAPE)	EEC
Transport Capital Grants	EEC
BioCultural Heritage Tourism project - EU Interreg Grant. (Addition to plan)	EEC
Street Lighting Procurement - Internal Control Report (Addition to plan)	EEC
Housing Repairs Contract	NCH
Housing Tenancy Fraud	NCH
Housing Windows Tendering – Review of system shortfall	NCH
Rough Sleeping Statistics (Addition to plan)	HASC
Debtors Miscellaneous Account Issue	F&R

Audits Carried Forward to 2019/20:

Audit Title	Department
Grants to community and voluntary organisations	NCH
Temporary Accommodation	NCH
Agency Staff Contract	F&R
Contract Collusion	F&R
Agency Staff Contract	F&R
Commissioning Arrangements - Joint Review	FCL & HASC

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.

