

Internal Audit and Counter Fraud Quarter 1 Progress Report 2019/20

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1. Summary of Completed Audits

BACS Payments – Reasonable Assurance

- 1.1 The purpose of this audit was to review the Council's BACS payments arrangements and obtain assurance that there are adequate controls to prevent the unauthorised amendment of BACS files and subsequent inappropriate or fraudulent payments.
- 1.2 The audit found that appropriate controls are in place but there are some opportunities to improve the control environment. As a consequence one medium and two low priority actions were agreed to be implemented. These were:
- Improved controls over password changes (medium priority);
 - Improved controls over data file access;
 - An enhancement to the file control data accompanying the transmission of data to the processing bureau.

Grants to Community and Voluntary Organisations – Reasonable Assurance

- 1.3 Brighton & Hove City Council has established a Third Sector Investment Programme which has two components: the Communities and Third Sector Commission (TSC) and a Communities Fund.
- 1.4 The purpose of the audit was to provide assurance that the grants are authorised within an approved scheme of delegation and that due diligence processes are applied to organisations in receipt of funding. In addition, that there are effective processes in place to monitor the use of these grants and to minimise the risk of duplication in funding.
- 1.5 The review found that there are robust processes in place to ensure the awarding of grants is open and transparent and that there was good evidence of funding aligning to the Council's priorities.
- 1.6 The report identified five actions to improve existing controls, four medium priority and one low priority. The four medium priority actions were:
- To improve the monitoring of funded organisations so that each year financial reports, risk registers and insurance information is received from all groups;
 - Better recording of annual review meetings and actions agreed with funded organisations;
 - That all partnerships report performance against agreed outputs and outcomes;
 - To establish better controls over project underspends/ carry-forwards.

Brighton Centre Follow-Up (Pay Issues) – Reasonable Assurance

- 1.7 This audit was a follow-up on an audit review in 2018/19 that concluded Minimal Assurance over the control environment because:
- staff had been underpaid for various shifts relating to weekend /overtime working and the taking of leave during these times;
 - a number of arrangements for additional payments to staff were considered inadequate;
 - some staff were working significant and regular amounts of overtime with locally determined arrangements for lieu time.
- 1.8 The purpose of the audit was to follow up on previously agreed management actions.
- 1.9 The review found that improvements have been made to the arrangements for the calculation of leave pay and overtime and that there is improved accountability over the production and agreement of staff work rotas.
- 1.10 Whilst this was the case, we also noted a lack of compliance against corporate processes (e.g. the recording of sickness absence) and that some staff are continuing to work very high levels of hours/ overtime due to staffing shortages.
- 1.11 As a result, four medium priority actions were agreed to address these issues. These were to:
- Implement actions to address shortfalls in the management of sickness and unauthorised absence;
 - Further streamline and simplify payroll processes;
 - Implement additional reconciliations/ checks to prevent errors in payments;
 - Improve the management and monitoring of staff who are working high levels of additional hours/ overtime on an individual basis.

On and Off Street Parking – Substantial Assurance

- 1.12 This audit covered both on-street parking (pay & display machines) and car parks (pay on exit and pay and display machines).
- 1.13 The purpose of the audit was to provide assurance that there are secure and effective banking processes for all parking income (cash and card) and that there are regular reconciliations. The audit also sought to establish that there are controls to identify thefts, machine breakdowns and other anomalies. Lastly that external contractors involved with the collection of car parking

income are performing in accordance with contract and service requirements and that payment machines are properly maintained.

- 1.14 The audit confirmed that parking income is effectively monitored and reconciled, ensuring all income is banked within ten working days as agreed in the service contract.
- 1.15 The contract includes appropriate provision for KPIs and required service levels, and these are being monitored as expected. Quarterly meetings are held with the contractor to highlight any performance issues should they arise.
- 1.16 Maintenance performance is monitored and repair targets are being achieved.
- 1.17 The report details five actions to further enhance controls in this system. Three of these were medium priority and two low priority. The three medium priority actions were as follows:
- Improved arrangements for the coding of VAT for a specific card type;
 - Resolving a coding issue with contactless cards;
 - Improving record keeping when machine faults have been fixed.

Joint Commissioning – Reasonable Assurance

- 1.18 Health & Adult Social Care's (HASC) Commissioning & Performance Team provide some commissioning services on behalf of the Families Children & Learning (FCL) Directorate. This audit sought to provide assurance that:
- Joint commissioning addresses the areas of highest need for children across the spectrum of services;
 - That those service areas fully utilise the frameworks established by the Strategic Commissioning team;
 - Actions from previous audits have been completed (including a 2017 audit of Learning Disabilities Contract Management).
- 1.19 The audit found some good examples of joint commissioning e.g. the HASC Commissioning and Performance team on behalf of FCL commissioned, developed and procured an Accredited Provider List (APL) in relation to supported accommodation services for young people. However, this is not being used to its full potential by FCL and two providers who initially failed to meet the criteria for the APL were still being used.
- 1.20 Small commissions, focussed around the procurement or re-procurement of a specific service are being undertaken but this is not considered fully joint or strategic commissioning. In addition,

joint commissioning is not yet being fully utilised as the strategic driver for assessing the needs of the City.

- 1.21 Work is ongoing to implement the actions from the Learning Disabilities - Contract Management audit report issued in May 2017. Three actions have been completed and two continue to be in progress, of which one is overdue. Revised implementation dates are now in place.
- 1.22 Overall, one high priority and three medium priority actions for improvement have been agreed within management arising from this latest review. These are:
- To develop a more strategic approach to commissioning which operates across the traditional directorate boundaries of children and adult social care. To include developing a joint commissioning strategy, defining responsibilities and expanding the current brokerage function (High Priority);
 - To address some issues with specific contracts for Supported Accommodation;
 - To ensure that the commissioning and re-procurement of Fostering Placements (for children with disabilities) is progressed with support from the Project Management Office and Corporate Procurement;
 - To implement two outstanding actions from the 2017 audit Learning Disabilities Contract Management.

Dorothy Stringer School – Partial Assurance

- 1.23 An audit of Dorothy Stringer School was undertaken in accordance with our standard audit programme. This covers governance arrangements, financial planning, budget monitoring, purchasing, income, payroll and some limited testing on school funds and assets.
- 1.24 The review concluded partial assurance identified a number of weaknesses in the system of control. Actions for improvement were agreed with management at the school in the following areas:
- Ensuring that that there are proper insurances in place and arrangements for the health and safety of contractors working at the school (High Priority);
 - Revising a committee terms of reference and scheme of delegation;
 - Improving the management of known conflicts of interest;
 - Continuing to closely monitor the school's financial position;
 - Improvements to payroll processes;
 - Ensuring that orders are raised for all purchases and that cash collection arrangements are improved;

- Ensuring that School Fund money is only used for appropriate purchases and rationalising voluntary fund accounts ;
- Introducing further improvements to site security and the security of assets;
- Improving income reconciliation processes.

EU Grant - BioCultural Heritage Tourism (BCHT)

1.25 This is an EU Interreg project that requires grant certification at least once a year. The total cost of the project between 2018 and 2021 is approximately £463,000. The grant expected is £320,000. This was the second claim on this project.

1.26 No significant issues were identified in the grant certification.

EU Grant – SOLARISE

1.27 This is an EU Interreg project that requires grant certification at least once a year. The full title of the project is Solar Adoption Rise In the 2 Seas. The total value of the project between 2018 and 2021 is approximately £525,000 (Grant expected £315,000). This was the second claim on this project.

1.28 No significant issues were identified in the grant certification.

Logotech - Treasury Management System Implementation

1.29 Internal Audit undertook a review to provide assurance over the implementation of the Logotech Treasury Management System. The review mainly focused on the proposed controls at Surrey and East Sussex County Council as Brighton and Hove City Council already uses an earlier version of the system.

1.30 The audit concluded that the controls in place regarding Logotech’s treasury management system are deemed to be sufficient and the implementation of the system will serve to help standardise treasury management practice across Orbis.

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

2.1 Internal Audit delivers both reactive and proactive counter fraud services across the Orbis partnership. Work to date has focussed on the following areas:

National Fraud Initiative Exercise

2.2 The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The council is required to submit data every two years, and matches are sent back to the council for investigation. The results from the 2018 exercise were received on 31 January 2019 and have been prioritised for review over the coming months. Periodic updates on any outcomes from this work will be provided as part of future internal audit progress reports.

Counter Fraud Policies

2.3 Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. Internal Audit is in the process of reviewing the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. A refreshed Counter Fraud Strategy will be reported to Audit and Standards January 2020.

Fraud Risk Assessments

2.4 Fraud risk assessments have been consolidated to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified.

Fraud Response Plans

2.5 The Fraud Response Plans take into consideration the results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. These include an increased emphasis on data analytics. The Fraud Response Plans will set out the proactive work plan for Internal Audit in 2019/20. Areas identified include:

- Conflict of Interest;
- Gifts and Hospitality;
- Purchasing and Fuel Cards.

Fraud Awareness

2.6 The team has been refreshing eLearning content to provide engaging and current material available to the whole organisation. This will be run in conjunction with fraud awareness workshops to help specific, targeted services identify the risk of fraud and vulnerabilities in their

processes and procedures. An awareness campaign is planned to coincide with Internal Fraud Awareness Week in November.

Reactive Counter Fraud Work - Summary of Completed Investigations

Conflict of Interest

2.7 Internal Audit undertook an investigation following concerns that an employee may have been undertaking private work in conflict with his role as a council officer. Following conclusion of the investigation, it was found that additional work undertaken by the employee was not in a private paid for capacity rather it was completed in an attempt to provide help to residents. Following the investigation the employee was issued with a letter of expectation clarifying professional boundaries.

Direct Payments

2.8 Internal Audit was approached to provide support on a Direct Payment case where it was alleged that the recipient may have been misspending the Direct Payments. Internal Audit were able to provide support to the service in changing the direct payment agreement template and improve procedures in place for recovering payments.

Housing Tenancy and Local Taxation

2.9 In addition to the above, a key focus area remains housing tenancy fraud and Local Taxation, and the team has made good progress with work to date delivering:

- 6 properties returned so far this year with 2 more at possession hearing stages;
- 3 people removed from the Housing Waiting List following investigation;
- £2,974 in Housing Benefit overpayment has been identified as a result of investigation activity;
- £152 recovered arising from a Council Tax Reduction overpayment;
- Single Person Discount to the value of £874 has been removed from a council tax account;
- A new Business Rates charge of £28,393 has been issued following an investigation relating to renting of a property as holiday lets.

3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 1, 100% of high priority actions due had been implemented.

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the internal audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. The following additions to the audit plan have been made for the year to date at the request of management or the Audit and Standards Committee:

- Home to school transport (procurement);
- Valley Gardens Project (Phase 3);
- Logotech Treasury Management System (Implementation);
- HASC Emergency Accommodation Contracts;
- Purchasing Cards.

4.2 Through the same process, audits could either be removed or deferred from the audit plan and, where appropriate, considered for inclusion in the 2020/21 plan as part of the overall risk assessment completed during the annual audit planning process. Two audits have been deleted to date as follows:

- New E-Pay System (replaced with Purchasing Cards);
- Employment Support Follow-up (Incl. Able & Willing).

5 Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set up agreed key performance indicators as set out in the following table:

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 Committee on 12 March 2019

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
	Annual Audit Report and Opinion	By end July	G	2019/20 Annual Report and Opinion approved by Audit Committee on 23 July 2019
	Customer Satisfaction Levels	90% satisfied	G	100% as at the end of quarter 1
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	On target. 38% of the plan complete as at the end of quarter 1.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings
	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% at end of quarter 1.
Our staff	Professionally Qualified/Accredited	80%	G	87%

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.

