

# Internal Audit and Counter Fraud Quarter 2 Progress Report 2023/24

## CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

## 1. Summary of Completed Audits

### Organisational Capacity – Workforce Strategy and Management

1.1 Organisational Capacity is the level of the council's capability to deliver services that not only satisfy regulatory and customer requirements but also anticipate future requirements. This is captured on the council's strategic risk register (SR25), which states the risk as insufficient organisational capacity or resources to deliver all services as before and respond to changing needs and circumstances.

1.2 This review focused on workforce strategy and management, which is an important component of building organisational capacity along with technology and finance.

1.3 This review was carried forward from the 2022/23 Audit Plan.

1.4 The purpose of our audit was to provide assurance that controls are in place to meet the following objectives:

- A workforce strategy and reporting arrangements are in place that responds to the changing needs of the council and is communicated to staff and members;
- Existing skill requirements and skill gaps are understood at a directorate level, and services are able to address and effectively utilise the workforce to safeguard the delivery of services; and
- Work has taken place to review the offer to staff and recruitment process to ensure the council retains and attracts a diverse workforce with the skills required to deliver and improve services.

1.5 We noted that there were some delays coming out of the pandemic relating to the drafting and formal approval of the workforce strategy and further from the 2023/24 budget setting process and May 2023 election. However, we were satisfied that sufficient progress has been made and we were able to provide an opinion of **Reasonable Assurance** over the controls operating in this area.

1.6 Some further opportunities to strengthen the control environment were however identified. These included the need to:

- Develop, monitor, and communicate key performance indicators for Our People Strategy;
- Further improve the identification of skills gaps and workforce capacity issues; and
- Review access to, and attendance of, recruitment training for managers to ensure their knowledge and skills are up to date and support the aim to recruit a diverse workforce with skills required to deliver and improve services.

1.7 A formal action plan to address the findings of this review has been agreed with management.

## Homes for Ukraine

1.8 The Homes for Ukraine Scheme was launched in March 2022. The council has several obligations under the scheme including; conducting appropriate checks in respect of the sponsor and accommodation, making 'one-off' subsistence payments to each Ukrainian guest, making 'thank you' payments to the host, and assisting guests to access relevant services. To fulfil these obligations the council received grant funding from the Department for Levelling Up, Housing and Communities (DLUHC).

1.9 This review forms part of the 2023/24 Audit Plan.

1.10 This audit aimed to provide assurance over the governance and key controls in the Homes for Ukraine process in relation to:

- Appropriate safeguarding checks are being undertaken, with all guest and host information correctly recorded;
- Robust procedures are in place to ensure payments are appropriately made, monitored and reconciled;
- Accurate quarterly returns are submitted to DLUHC; and
- Appropriate procedures are in place to support Ukrainian guests in moving to private accommodation.

1.11 In providing an opinion of **Reasonable Assurance**, we found a number of areas of good practice, including:

- the establishment of, and regular reporting to, the Programme Board on the Homes for Ukraine work and compliance with the grant conditions;
- an escalation process is in place to ensure time sensitive decisions required by the Programme Board can be made outside of scheduled meetings;
- sound policies and procedures are in place to administer the Scheme, and
- appropriate safeguarding checks are completed and documented.

1.12 We did, however, identify some areas where improvement was required in order to strengthen the controls already in place, including the need to:

- Improve the reconciliation process for host and guest payments and move-on payments;
- Develop guidance for completing the quarterly returns to DLUHC; and
- Document the process for the BHCC Refugee Grant Scheme and the procedure for recovering overpayments.

1.13 A formal action plan to address the findings of this review has been agreed with management.

## **Budget Management – Effectiveness of Savings Targets**

1.14 In February 2023, the council agreed a gross budget of £891.1m for 2023/24, which included a significant savings target of £14.2m, with further shortfalls of £44m identified over the following three years. This follows on from cumulative savings of £209m since 2009/10.

1.15 The council holds reserves and provisions principally for earmarked purposes or to meet identified liabilities. This does include an unallocated risk reserve, or working balance, of £6m (reduced from £9m) to meet potential unplanned financial impacts or overspending.

1.16 In conducting this review, we acknowledge the challenges in planning and delivering savings at a time when no political party had overall control, which has made decision-making more difficult. We also acknowledge that 2023/24 was an election-year budget, which followed over a decade of addressing significant annual budget gaps (savings), which created its own tensions and some disruption to the budget setting process. Similarly, we acknowledge that the government funding announcement for 2023/24 was received later than any previous year, leaving officers and members to develop a budget with imperfect information.

1.17 Following the July 2023 budget monitoring report, which had forecasted an £11m overspend, spending controls have been in place across the council. In October 2023 there was a forecast overspend of £8.9m at year end, an improvement since the July budget monitoring report.

1.18 This review was carried forward from the 2022/23 Audit Plan and was requested by the Chief Finance Officer, in response to the worsening financial position and concern over budget pressures. Many of the issues raised in this report were raised by management and discussed with the auditor during the course of the review.

1.19 The purpose of our audit was to provide assurance that controls are in place to meet the following objectives:

- Arrangements for the effective evaluation of savings targets, including the understanding of demand pressures, help to ensure that targets are realistic and achievable, are aligned to the council's priorities and that departments' savings do not have unexpected, adverse effects on other departments' ability to deliver their own savings or services;
- Planned savings targets are met;
- The impact of planned savings on the council's internal control environment is sufficiently understood to enable balanced decision-making that minimises the risk of key service failure and/or financial loss through error or fraud; and

- The impact of planned savings is sufficiently understood to allow balanced decision making that manages risks to the council's strategic objectives effectively, including the delivery of its statutory services.

1.20 Our review identified a number of weaknesses which we believe have made the required savings target more difficult to achieve and, as a result, we were only able to provide a **Partial Assurance** audit opinion.

1.21 Whilst our review focused on the revenue budget, we recognise that there may be opportunities for further savings in the capital programme.

1.22 In response to this audit, an action plan was agreed with management that included measures to:

- Ensure that savings targets are more clearly aligned to the strategic priorities and statutory responsibilities of the council, rather than apportioning in proportion to the sum of income and expenditure budgets;
- Improve the forecasting of unit costs in demand led services to avoid reverse engineering of savings targets, or savings that immediately become at risk or create a service pressure;
- Develop a consistent approach with the Administration on RAG ratings for proposed savings;
- Review opportunities to make savings in areas that may be unpopular but may provide the council with a more sustainable budget;
- Review the protocol of Budget Amendments made by members, to ensure there is sufficient time for officers to evaluate the impact of proposals;
- Ensure there is sufficient documentation to evidence decision making, including rationale for any changes to the savings plan;
- Work with directorate management teams to ensure sufficiently detailed plans are in place for savings over £250k; and
- Assess the short and long term financial impact for the whole council of increasing fees, charges and rents.

1.23 A follow up audit will take place in 2024/25 to provide assurance that the agreed actions have been implemented.

## Contract Management

1.24 The council has in place a Contract Management Framework, developed by Orbis Procurement, which provides an approach for the management of contracts, to ensure delivery

of value and quality of goods and services purchased from suppliers. Although Orbis Procurement is responsible for maintaining the Framework, it is the responsibility of individual contract managers to familiarise themselves with this and apply it to their contracts as appropriate.

1.25 At the start of 2022/23 the council's contract register contained 430 current contracts, with a total value of over £978 million, from which we selected a sample of higher-value contracts for review in terms of alignment with the Framework, via a survey and review of documentation.

1.26 The purpose of this audit was to provide assurance that contract managers are managing their contracts in accordance with the Contract Management Framework, and, thereby, maximising the value they are getting from those contracts. In doing so, we note that use of the Framework is not mandatory at the council.

1.27 This review was carried forward from the 2022/23 Audit Plan and aimed to provide assurance that controls are in place to meet the following objectives:

- Governance arrangements, including corporate oversight, monitoring and reporting are effective in delivering the required outcomes;
- Financial controls are in place to ensure that the contract is delivered to budget and payments are only made for goods, works or services actually provided;
- Arrangements ensure that any problems are resolved, with appropriate remedies invoked, in accordance with contractual requirements;
- Risk management and business continuity arrangements ensure continuing service provision; and
- Only necessary and appropriately authorised variations are made.

1.28 We were only able to provide an opinion of **Partial Assurance** over the controls operating in this area as, whilst we found that the Framework and supporting documentation developed by Orbis Procurement to be comprehensive, contract managers were, in general, not familiar with these or making full use of them.

1.29 Actions to address the findings from this review were agreed with management, including:

- Increasing communication with contract managers, highlighting the availability and importance of resources to assist them managing their contract effectively;
- Exploration of how details of contract managers could be accurately recorded and maintained, as part of the implementation of the council's new back office systems; and
- Review of documentation to clarify the expectations of contract managers in relation to financial health checks.

1.30 A follow up audit will take place in 2024/25 to provide assurance that the agreed actions have been implemented.

## Housing Benefits and Council Tax Reduction

1.31 Housing Benefit and Council Tax Reduction are administered by the Welfare Revenues & Business Support Team. In 2017, Housing Benefit was replaced by Universal Credit for all new claimants and as such most people who are of working age now claim through Universal Credit instead of Housing Benefit. The Team also processes claims relating to Council Tax Reduction which may be available for those on low incomes.

1.32 This review was carried forward from the 2022/23 Audit Plan and sought to provide assurance that appropriate controls are in place to meet the following objectives:

- Housing Benefit payments and Council Tax Reduction are legitimate and appropriate;
- Assessment of Housing Benefits and Council Tax Reduction is accurate and timely;
- Overpayments and write-offs are managed, monitored and reported; and
- Regular reconciliations are undertaken between the Benefits System, Housing Rents and the General Ledger.

1.33 In completing this work, we were only able to provide an opinion of **Partial Assurance**. This opinion was largely due to the finding of significant backlogs in work and delays in processing that undermine the control environment, rather than any systemic internal control weaknesses. We found that management were aware of the issues and already escalating their concerns at the time of the audit.

1.34 We found that new claims were accurately assessed and that the rate at which new housing benefit claims were processed was either similar or better than the national and South-East averages. However, the speed of processing changes of circumstances for housing benefit was taking an average of 16 days, which is double the average for Great Britain. There is also a significant backlog for Universal Credit council tax reduction updates. It is hoped that moves to an automated system in February 2024 could reduce backlogs, although this will require additional resources during the transition.

1.35 We acknowledge that delivery of this service was significantly disrupted during the pandemic, which will have added to the backlog. The team are also impacted by the delay in the migration of the majority of legacy benefit households that has meant that the reduction in housing benefit work has been more gradual than expected. Full transfer to Universal Credit is not now estimated to be until 2028.

1.36 In response to these findings, actions have been agreed with management, which included the need to:

- Prepare a business case identifying additional resources required to clear backlogs;
  - Develop automation, where possible, to improve processing performance; and
  - Review workflows and improve the way work is allocated to ensure there is more of an equal distribution across the Team.
- 1.37 A follow up audit will take place in 2024/25 to provide assurance that the agreed actions have been implemented.

## **Payment Card Industry – Data Security Standard Governance Arrangements**

1.38 The Payment Card Industry – Data Security Standard (PCI-DSS) is a set of security standards designed to ensure that all organisations that accept, process, store or transmit payment card information maintain a secure environment. The Standard provides specific, actionable guidance on protecting payment card data.

1.39 This review was carried forward from the 2022/23 Audit Plan and sought to evaluate the governance arrangements that support compliance with the PCI-DSS requirements. We did not look to reperform any of the activities that form part of the PCI-DSS assessment.

1.40 Based upon the work we have undertaken, we have only been able to provide an opinion of **Partial Assurance**.

1.41 Whilst it is not appropriate to share the specific details of our findings within this report, as this information could be used to aid fraudulent activity, some of the actions agreed relate to defining and communicating roles and responsibilities in order to strengthen governance in this area.

1.42 Actions have been agreed with management to improve the control environment and a follow up audit will be undertaken in 2024/25.

## **Adult Social Care Service Agreements (Residential and Non-residential)**

1.43 Where adults require care and are eligible for this to be funded or part-funded by the council, they will undertake an assessment with officers to determine a package of care that meets their needs and calculates the associated cost. Once the package of care has been determined and agreed, a service agreement between the client, provider of the supported care and the council will need to be put in place.

1.44 This review was carried forward from 2022/23 and was an approved addition to the Audit Plan, at management's request, due to a change in the risk profile within this area.

1.45 The purpose of this audit was to provide assurance that controls are in place to meet the following objectives:

- Robust and comprehensive processes are in place to ensure that the information contained in service agreements is accurate and reflects the agreed care package, and that it is received and commenced in a timely manner;
- Robust processes are in place to ensure payments made to providers of care are accurate and timely; and
- Adequate arrangements are in place to ensure service agreements that are no longer required are appropriately closed in a timely manner.

1.46 It should be noted that this audit only reviewed service agreements in relation to nursing, residential and non-residential placements. The scope therefore excluded direct payment service agreements, which have previously been covered in the direct payments audit.

1.47 In completing this work, we were only able to provide an opinion of **Partial Assurance** over the controls in place, with a range of improvements identified in relation to:

- Agreeing and documenting responsibilities across different teams involved in the service agreement process to streamline and avoid delays including cessation, amendments, and setting-up new service agreements;
- Minimising delays in setting up or amending service agreements through maintaining detailed and consistent information in referral forms, and reviewing the scheme of delegation to ensure authorisation of changes to service provision are clearly defined;
- Documenting and sharing the escalation process;
- Ensuring guidance and procedure documents are in place over the end-to-end process which contain relevant version control; and
- Introducing exception reports to highlight any potential data entry errors.

1.48 In all cases, these actions have been agreed with management as part of a formal action plan and a follow up audit will take place in 2024/25 to provide assurance that they have been implemented in a timely manner.

## Schools

1.49 We have a standard audit programme in place for all school audits, with the scope of our work designed to provide assurance over key controls operating within schools. The objectives of our work are to ensure that:

- Governance structures are in place and operate to ensure there was independent oversight and challenge by the Governing Body;
- Decision making is transparent, well documented, and free from bias;
- The school is able to operate within its budget through effective financial planning;
- Unauthorised or inappropriate people do not have access to pupils, systems, or the site;

- Staff are paid in accordance with the schools pay policy;
- Expenditure is controlled and funds used for an educational purpose;
- The school ensures value for money on contracts and larger purchases;
- All voluntary funds are held securely and used in accordance with the agreed purpose.

1.50 One school audit was finalised in quarter 2. The table below shows details of the school we audited, together with the final level of assurance reported to them.

Name of School	Audit Opinion
Hertford Junior School	<b>Reasonable Assurance</b>

1.51 We aim to undertake follow-up audits at all schools with Minimal Assurance opinions. For Partial Assurance opinions we will write to the Chair of Governors to obtain confirmation that recommendations have been implemented.

1.52 The core financial role of the LA is to set and monitor a local framework, including provision of budgetary information, provision of a financial oversight and ultimately intervening where schools are causing financial concerns. Schools (the governing body and the Headteacher) are required to manage their delegated budget effectively ensuring the school meets all its statutory obligations, and through the Headteacher comply with the LA’s Financial Regulations and Standing Orders.

## Grant Certifications and Non-Opinion Work

### Blueprint for a Circular Economy (Claim 7)

1.53 This is a European Union (EU) Interreg project that requires grant certification. The total value of the project is EUR 402,322, with 69% funded by the EU. The funding has been used to grow and embed circular principles into the wider community by supporting the growth of circular business models and practices across existing and new emerging social enterprises based in the city.

1.54 Claim 7 was the final claim for this grant funding and no significant issues were identified in the grant certification.

### Bus Subsidy Revenue Grant

1.55 This is a ringfenced grant available to local authorities from the Department of Transport to support the improvement of local bus services. The amount of £172,990 was provided to the council for 2022-23. The grant expenditure requires certification by Internal Audit

1.56 No significant issues were identified in the grant certification.

## **Enterprise Resource Planning (ERP) Programme**

1.57 In July 2022, Policy and Resources Committee agreed to commence procurement of a corporate Enterprise Resource Planning (ERP) system to replace the current Finance and HR/Payroll systems which have been used by the council for 16 and 12 years respectively.

1.58 Internal Audit have been attending Programme Board meetings to provide independent and objective advice, support and challenge.

1.59 A package of deliverable internal audit work has been agreed with the Board, designed to provide the Board with assurance when making critical decisions, including the provision of assurance over the design of the control environment within the new system.

1.60 We will continue to update the Committee on our work as the programme progresses.

## **Housing Repairs Works Management System Replacement Programme**

1.61 It was agreed by the Housing & New Homes Committee and the Policy, Resources & Growth Committee in 2018 to bring the responsive repairs and empty property refurbishments service in house on 1st April 2020. This service includes emergency repairs, and the procurement of suppliers to provide specialist works, where the in-house team do not have the skills to complete them.

1.62 We have agreed to attend programme board meetings and provide ad-hoc advice, support and challenge as appropriate to support the procurement of a Works Management System that works alongside and interfaces with the NEC Housing Management System.

1.63 Whilst no specific internal audit work has yet been required of the new system to date, internal audit work will be provided to support the programme as and when appropriate, in agreement with the Board.

## **2. Proactive Counter Fraud Work**

### **Counter Fraud Activity**

2.1 Internal Audit have been liaising with the relevant services to provide advice and support in processing the matches received as part of the National Fraud Initiative.

2.2 The team are currently working with the relevant services to upload the data for the next National Fraud Initiative Single Person Discount exercise, which is due to take place in early 2024.

2.3 The team continue to monitor intel alerts and share information with relevant services when appropriate.

## **Summary of Completed Investigations**

### Prosecution of a Private Landlord under the Protection from Eviction Act 1977

2.4 An investigation was conducted by Internal Audit following a referral alleging that the director of a Brighton & Hove letting agency was acting to interfere with the peace and comfort of tenants in their home and attempting to illegally evict them from their properties. Following the investigation, the agent was successfully prosecuted by Brighton & Hove City Council under the Protection from Eviction Act 1977. The defendant was fined £41,000 (after a 20% reduction for a guilty plea) and ordered to pay £10,100 compensation to three victims, as well as a £181 victim surcharge. In addition, the defendant has paid the council's legal fees of £9000.

### Disclosure of Confidential Information

2.5 Internal Audit received an allegation that a member of staff had disclosed confidential information during a procurement process which enabled a supplier to submit the lowest bid to successfully win a contract. Following an investigation, the allegations against the individual were not substantiated. However, a report was issued to the service identifying several improvements to strengthen controls around procurement. The service is now working with the Procurement Team to improve the control environment.

### Housing Tenancy and Council Tax Fraud

2.6 The Tenancy Fraud Team continue to investigate allegations of potential sublet. They work closely with Housing Managers and Officers for a joined-up approach to allegations of abandonment with an increasing emphasis on visits and communication with tenants to increase awareness and reiterate a tenant's responsibly under their tenancy agreements.

2.7 The Tenancy Fraud Team are currently working with the Housing and Legal Team with court papers drafted for submission to the courts for a property to be recovered.

2.8 The Tenancy Fraud Team also continue to investigate allegations of false claims for Single Person Discount (SPD) and Council Tax Reduction (CTR). An improved process is in place whereby errors and discrepancies with Council Tax are adjusted in a timely manner to make savings, but also to ensure accounts are correct to minimise any ongoing loss.

2.9 The results for the 2023/24 financial year, for quarter 2, are summarised in the table below:

Fraud Area	Number Q2	Value of Potential Savings (£) Q2	Cumulative Savings (£) 2023/24
Social Housing Recovered	0	0	£93,000
Succession Prevented	0	0	£93,000
Housing Application withdrawn	0	0	
Homeless Application withdrawn	0	0	
RTB Withdrawn	0	0	
SPD Removed	5	£3,057.15	£7,197.15
CTRS	0	0	£440.00
Business Rates	0	0	
<b>Total</b>		<b>£3,057.15</b>	<b>£193,637.15</b>

### 3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. When high priority actions become due, we seek confirmation from service management that actions have been implemented. At the end of quarter 2, we can report that 100% of high priority actions due, have been confirmed as implemented by management.

3.4 A number of high priority actions have had their implementation deadlines extended, in agreement with management. Where the revised deadlines are not met, these will be reported to the next meeting of the Audit & Standards Committee.

### 4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the Internal Audit plan for the year has been kept under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management the following audits have been added to the audit plan this quarter:

Planned Audit	Rationale for Addition
Parking Income	Parking has been an important area of income generation for the council. The Executive Director for Economy, Environment and Culture requested an audit to provide assurance in this area.
Supported Families Grant	Changes to the certification requirements for this grant mean that an audit review and

	certification is now requested by management
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4.2 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:

Planned Audit	Rationale for Removal
Warmer Homes Programme	Cancelled due to delay and review of the programme.
Home Upgrade Grant	Audit certification is not required for this grant as the scheme is administered through Portsmouth City Council.
Business Rates (Revaluation)	An additional audit was scheduled anticipating that further review would be required in this area. However, we have been able to adequately cover the controls and mitigation of risk in the main Business Rates audit, reported in the Q1 progress report with Reasonable Assurance.
Housing Major and Planned Works	Supply chain issues and delays in procurement have delayed this programme. At the request of the service, we have agreed to defer the audit review to 2024/25.
Transition from Children to Adults	Work is ongoing to make improvements in this area and some responsibilities have been transferred between directorates. At the request of the service, we have agreed to defer the audit review to 2024/25

## 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 of 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	<b>G</b>	2023/24 Internal Audit Strategy and Annual Audit Plan formally approved by Audit and Standards Committee 18th April 2023.
	Annual Audit Report and Opinion	By end July	<b>G</b>	2022/23 Annual Report and Opinion presented to Audit and Standards Committee 27th June 2023.
	Customer Satisfaction Levels	90% satisfied.	<b>G</b>	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	45%	<b>G</b>	49.2%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	<b>G</b>	<p>Dec 2022 - External Quality Assurance completed by the Institute of Internal Auditors (IIA). Orbis Internal Audit assessed as achieving the highest level of conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising. In summary the service was assessed as:</p> <ul style="list-style-type: none"> <li>• Excellent in: Reflection of the Standards Focus on performance, risk and adding value.</li> <li>• Good in: Operating with efficiency Quality Assurance and Improvement Programme</li> <li>• Satisfactory in: Coordinating and maximising assurance</li> </ul>

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	<b>G</b>	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	<b>G</b>	100% for high priority agreed actions (see above)
Our staff	Professionally Qualified/Accredited (Includes part-qualified staff and those undertaking professional training)	80%	<b>G</b>	97%

### Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	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.
<b>Minimal Assurance</b>	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.