

<b>Subject:</b>	<b>Internal Audit Progress Report 2013/14</b>		
<b>Date of Meeting:</b>	<b>24 September 2013</b>		
<b>Report of:</b>	<b>Executive Director of Finance and Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Mark Dallen, Audit Manager</b>	<b>Tel: 29-1314</b>
	<b>Email:</b>	<b>mark.dallen@brighton-hove.gcsx.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. SUMMARY AND POLICY CONTEXT:**

- 1.1 The purpose of this report is to inform Members of the progress made against the Internal Audit Plan 2013/14, including outcomes of specific audit reviews completed and tracking of the implementation of recommendations.
- 1.2 The Audit and Standards Committee has a role in monitoring the activity and outcomes of internal audit work against the plan and receiving regular progress reports.
- 1.3 The report includes information on the work undertaken by the Corporate Fraud Team that has been recently established and whose work is a key component of the Internal Audit Plan.

**2. RECOMMENDATIONS:**

- 2.1 That the Committee notes the progress made in delivering the Annual Internal Audit Plan 2013/14.

**3. BACKGROUND INFORMATION**

- 3.1 The Accounts and Audit (England) Regulations 2011 require the Council to 'maintain an adequate and effective system for internal control in accordance with proper practices.' Proper practice is defined by Public Sector Internal Audit Standards.
- 3.2 The Internal Audit Strategy and Plan provides the framework to deliver this service ensuring the most appropriate use of internal audit resources to provide assurance on the Council's control environment and management of risks.
- 3.3 The Audit Plan sets out an annual schedule of those systems including core financial systems, governance frameworks, IT audits and other key operational systems.

3.4 Amendments to the plan are approved by the Executive Director of Finance and Resources and are reported as part of this monitoring report.

#### 4. PROGRESS AGAINST THE AUDIT PLAN

4.1 Eleven reports have been finalised during the first four months of this year. Details of these reports are below.

<b>Final Audit Reports</b>	<b>Assurance Opinion*</b>	<b>Number of Recommendations (High and Medium Priority)</b>
Pupil Premium Funding	Reasonable	6
Saltdean Lido	Substantial	0
Logotec Asset Management System	Reasonable	3
Financial Director Treasury Management Application	Substantial	4
Corporate Landlord Responsibilities	Limited	3
Houses in Multiple Occupation	Substantial	2
Disposal of Assets	Substantial	1
Bailiff Services	Reasonable	5
Golf Courses	Substantial	0
Housing Assessment and Allocations	Reasonable	11
Grant Claims – Stronger Families, Stronger Communities/ Fuel Poverty Fund & Green Deal Pioneer Places Funding	N/A	N/A

Note.\* A definition of the Assurance Opinions given is provided in Appendix 1.

4.2 Further information about the Limited Assurance report is included in Appendix 2 of this report. This is reported as a Part 2 item.

4.3 In addition there are 14 reviews where draft reports have been issued and are in the process of being finalised.

4.4 The total of draft and final reports is 25 at this point of the year which represents 22% of the approved audit plan. Another 18 audit reviews are underway.

4.5 Progress with the audit plan has not been as good as would be hoped at this point in the year due to long term sickness and a staff vacancy.

4.6 An agency employee has been recruited and the recruitment process for a vacant post has commenced to address this slippage.

#### 5. CHANGES TO THE APPROVED AUDIT PLAN.

5.1 The following changes have been made to the approved audit plan for 2013/14.

<b>Audit Review</b>	<b>Change</b>	<b>Reason for Change</b>
Disposal of Assets	Addition	Late addition to audit plan

## **6. COUNTER FRAUD WORK**

- 6.1 Following a recent restructure all counter fraud work has been located under one team which covers corporate counter fraud work, housing benefit fraud investigations and tenancy fraud.
- 6.2 Close working relationships continue to exist between the Corporate Fraud Team and the Internal Audit Team. In the immediate future it is expected that the some counter fraud work and management investigations will be delivered by Internal Audit, or with joint working arrangements between the two teams.
- 6.3 The outcome of the prosecution relating to the Hove Town Hall drop safe thefts and the arrest of a suspect in 2011 was determined in June this year. The defendant pleaded guilty to all 6 charges and was sentenced to 2 Months imprisonment, suspended for 2 years. Only minimal compensation of £1,000 was payable to the council due to the defendants circumstances. An insurance settlement is still being negotiated.
- 6.4 Outcomes for housing benefit fraud for the year to date are:-
- 18 Prosecutions
  - 1 Caution
  - 8 Administration Penalties
  - £353,070.35 in Overpayments
- 6.5 With regard to housing tenancy fraud there have been 5 properties returned to the council's housing stock in the period.

### National Fraud Initiative Update

- 6.6 The council has once again participated in the National Fraud Initiative. This is a national data matching exercise that is carried out by the Audit Commission. The council is legally obliged to supply the data and is required by law to protect the public funds it administers.
- 6.7 The review of the matches is well underway and this has already resulted in £108,000 in overpayments being identified.

## **7. IMPLEMENTATION OF RECOMMENDATIONS**

- 7.1 The service is in the process of introducing some refinements to the processes for monitoring the implementation of audit recommendations. The updated processes will focus on High and Medium Priority recommendations.
- 7.2 In summary the revised approach includes two follow-up mechanisms:-
- Specific follow-up reviews for all audits where we concluded Limited Assurance – These are audits in their own right focusing on the risks and recommendation detailed in the previous audit report.

- Implementation reviews on other audits.

7.3 The exception to these arrangements is where audits are carried out on an annual basis e.g. core financial systems. In these instances recommendations will be follow-up during the following year's audit, unless there are specific risks and recommendations that require more immediate scrutiny.

7.4 During the first 4 months on 2013/14 we issued 15 Implementation Reports and followed-up on a total of 84 recommendations. The results of this exercise are summarised below.

Number of Recommendations Followed Up	Implemented*	% Compliance
84	69	82%

\* Includes both fully implemented and part implemented

7.5 Where recommendations have not been implemented further action is being considered on a case by case basis.

## 8. FINANCIAL & OTHER IMPLICATIONS:

### Financial Implications:

8.1 It is expected that the Internal Audit Plan for 2013/14 will be delivered within existing budgetary resources. Progress against the Annual Internal Audit Plan and action taken in line with recommendations support the robustness and resilience of the councils practices and procedures and support the councils overall financial position.

*Finance Officer Consulted: James Hengeveld*

*Date: 10/09/13*

### Legal Implications:

8.2 Regulation 6 of The Accounts & Audit Regulations 2011 requires the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. It is a legitimate part of the Audit & Standards Committee's role to review the level of work completed and planned by internal audit.

*Lawyer Consulted: Oliver Dixon*

*Date: 23/08/13*

### Equalities Implications:

8.3 There are no direct equalities implications arising directly from this report

### Sustainability Implications:

8.4 There are no direct sustainability implications arising from this report.

Crime & Disorder Implications:

- 8.5 There no direct implications for the prevention of crime and disorder arising from this report.

Risk and Opportunity Management Implications:

- 8.6 The Internal Audit Plan and its outcome is a key part of the Council's risk management process. The internal audit planning methodology is based on risk assessments that include the use of the council's risk registers.

Corporate / Citywide Implications:

- 8.7 Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Internal Audit Report Assurance Levels: Definitions

### **Background Documents**

1. Internal Audit Plan 2013/14
2. Public Sector Internal Audit Standards
3. Accounts and Audit Regulations 2011

## APPENDIX 1.

### Internal Audit Report Assurance Opinions: Definitions

<b>FULL</b>	There is a sound system of control designed to achieve the system and service objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.
<b>SUBSTANTIAL</b>	No significant improvements are required. Whilst there is a basically sound system of control (i.e. key controls), there are weaknesses, which put some of the system/service objectives at risk, and/or there is evidence that the level on non-compliance with some of the controls may put some of the system objectives at risk and result in possible loss or material error. Opportunities to strengthen control still exist.
<b>REASONABLE</b>	The audit has identified some scope for improvement of existing arrangements. Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and result in residual risk. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Council.
<b>LIMITED</b>	Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve control or compliance will lead to an increased risk of loss or damage to the Council. Not all major risks are identified and/or being managed effectively.
<b>NO</b>	Control is generally very weak or non-existent, leaving the system open to significant error or abuse and high level of residual risk to the Council. A high number of key risks remain unidentified and/or unmanaged.

