

<b>Subject:</b>	<b>Internal Audit Progress Report 2014/15</b>		
<b>Date of Meeting:</b>	<b>18 November 2014</b>		
<b>Report of:</b>	<b>Executive Director of Finance and Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Mark Dallen, Acting Head of Internal Audit</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 update Members of the progress made against the Internal Audit Plan 2014/15, 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 and update on the work of the Corporate Fraud Team.

**2. RECOMMENDATIONS:**

- 2.1 That the Committee notes the progress made in delivering the Annual Internal Audit Plan 2014/15.

**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 2014/15 AUDIT PLAN:**

4.1 A total of 19 reports have now been finalised for the year to date. Those finalised since the last reported to the Audit & Standards Committee in September 2014 are detailed in the table below:

<b>Final Audit Reports</b>	<b>Assurance Opinion*</b>	<b>Number of Recommendations and Priority</b>
Education PFI	Reasonable	1 x Medium
Corporate Building Cleaning Contract	Limited	2 x High 8 x Medium
Regulatory Enforcement Activities/Licensing	Reasonable	1 x High 2 x Medium
Declarations of Gifts, Interests and Hospitality (Members)	Reasonable	5 x Medium
Declarations of Gifts, Interests and Hospitality (Officers)	Reasonable	5 x Medium
Procurement Cards	Substantial	3 x Medium
Right to Buy	Substantial	1 x Medium
Premises Security - Schools	Reasonable	3 x Medium
SIMS – Application Audit	Reasonable	4 x Medium
School Admissions	Substantial	6 x Medium
Cash Collection Contract – Transition Arrangements	Limited Assurance	1 x High 1 x Medium

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

4.2 In addition there are 17 reviews where draft reports have been issued and are in the process of being finalised.

4.3 The total of draft and final reports is 36 at this point of the year which represents 40% of the approved audit plan. Another 18 audit reviews are allocated and/or in progress.

**5. LIMITED ASSURANCE REPORTS:**

5.1 The two Limited Assurance reports finalised in the period were an audit of the Cash Collection Contract - Transitional Arrangements and an audit of the Council's Building Cleaning Contract.

5.2 Further information about these audits is included in Appendix 2 which is included as a Part 2 Agenda Item at this meeting.

## 6. CHANGES TO THE APPROVED AUDIT PLAN:

### Addition: School Financial Governance Review

- 6.1 At the request of the Assistant Director - Education & Inclusion an audit review was undertaken into specific aspects of financial governance at Blatchington Mill School. The review was undertaken following the receipt of a whistleblowing allegation.
- 6.2 A draft report has been prepared and sent to the school and the Department for Education who are also aware of the issues. A copy of the report has also been released to the whistleblower.
- 6.3 For the areas reviewed the audit did not identify any fundamental shortfalls with the school's financial management arrangements but a number of areas for improvement were identified.

### Deletions to Audit Plan

- 6.4 The service has continued to be required to do investigatory and other unplanned work which is likely to exceed the original contingencies on this year's annual plan. To ensure effective planning and control it is therefore proposed to delete the following audits from this year's work plan.
- Lift Maintenance (Housing) – This review was covered by a late 2013/14 audit
  - Traded Services for Schools – This audit has already been followed up this year
  - Environmental Management System Audits – This was a joint working exercise with the sustainability team which is no longer required.

## 7. COUNTER FRAUD WORK:

### Housing Tenancy Fraud

- 7.1 Outcomes for the year to date are as follows:

<b>Outcome</b>	<b>Year to Date</b>	<b>This Period</b>
Housing Stock returned	5	-
Housing Association properties	1	-

- 7.2 The Council has had its first successful prosecution of a housing tenancy fraud case (October 2014) under the Prevention of Social Housing Fraud Act 2013.
- 7.3 The Defendant appeared through a solicitor and entered a guilty plea. The Court heard the matter and passed sentence in the absence. The magistrates ordered the Defendant to pay a fine and costs.

### Proactive Initiatives

- 7.4 A draft fraud e-learning package is currently being compiled by the Corporate Fraud Manager working in conjunction with the Organisational & Workforce Development Team. It is planned to launch this in the next two months.

### National Fraud Initiative 2014 Update

- 7.5 Arrangements are currently in place to supply the data for the above exercise to the Audit Commission. There is a new dataset that is required this year which is Personal Budgets.
- 7.6 Checks are also being undertaken to ensure that the requirements of the Code of Data Matching Practice are being complied with e.g. data is submitted securely and data subjects have been notified as to the purposes for which the data that they supply are notified as to the purposes for which the data they have supplied will be used for.

### Publicity and Fraud Awareness

- 7.7 The Autumn edition of the council's Housing Magazine "Homing in" includes a short article on tenancy fraud.
- 7.8 An update on the progress being made in relation to housing tenancy fraud was given to the Housing Committee on 10th September 2014.

## **8. IMPLEMENTATION OF RECOMMENDATIONS:**

- 8.1 For the year to date we have now followed-up on a total of 83 recommendations. The results of this exercise are summarised below.

<b>Number of Recommendations Followed Up (Year to Date)</b>	<b>Implemented*</b>	<b>% Compliance</b>
<b>83</b>	<b>80</b>	<b>96%</b>

\* Includes both fully implemented and part implemented

- 8.2 There are two audits where there are recommendations that have not been actioned. These are in relation to Housing Locata System and training for school staff on Information Governance. We continue to follow-up on both issues

## **9. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 9.1 It is expected that the Internal Audit Plan for 2014/15 will be delivered within existing budgetary resources after allowing for deletions to the plan to accommodate unplanned work . 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. Where there are financial implications relating to limited assurance audits and the risks can be quantified, these will be taken into account within budget setting, Targeted Budget Management and the Statement of accounts as appropriate.

Finance Officer Consulted: James Hengeveld

Date: 31/10/2014

Legal Implications:

- 9.2 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: 24/10/14

Equalities Implications:

- 9.3 There are no direct equalities implications arising directly from this report

Sustainability Implications:

- 9.4 There are no direct sustainability implications arising from this report.

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

- 9.6 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:

- 9.7 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
2. Additional Information on Limited Assurance Reports (Part 2. Agenda Item)

### **Background Documents:**

1. Internal Audit Plan 2014/15
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.