

Report for Information

Report to Audit Committee
22 March 2011

7

Report of Audit Manager

Subject Internal Audit and Counter Fraud 2010/11 - Update

Purpose

To advise members of progress on the 2010/11 internal audit and counter fraud plans.

Recommendations

To receive the progress on the internal audit and counter fraud plans.

Financial Consequences

The financial consequences of this report are none directly.

Risk Management

The work of internal audit helps to reduce the risk of loss arising from fraud, error and inefficient practices by contributing to the proper, economic, efficient and effective use of resources.

Strategic Objective/Service Priorities

The report helps to achieve the strategic priority “One council:

- customer focus – putting customers at the heart of everything we do;
- continuous improvement of our services; and
- cost conscious – efficient and effective service delivery ”

Contact Officers

Barry Marshall
Steve Dowson

01603 21 2556
01603 21 2575

Background Documents

Audit Committee 8 June 2010 – “Internal Audit and Counter Fraud Plans 2010/11”

Report

Background

1. The audit plan for 2010/11 was approved by members in June 2010.
2. This report covers the following areas:
 - audit work during the period April to January 2010
 - other areas of non-audit and financial consultancy work
 - the annual audit plan, showing progress against planned audits
 - progress on counter-fraud work and results from the fraud team from April to February 2010
3. For each audit review a report is presented to the relevant director or head of service, which includes recommended actions to be taken. Every audit is subsequently followed up to ensure that the agreed actions have been implemented.

Audit assurance work

4. The main areas of assurance work reported on up to the end of January are as follows:
 - Right to buy – good assurance
 - Partnerships framework – outsourced – good assurance
 - Treasury management – moderate assurance
 - Accounts payable – moderate assurance
 - Norman Centre – moderate assurance
 - The Halls – moderate assurance
 - Accounts receivable – limited assurance
 - Cemetery – limited assurance
 - Business continuity – outsourced – average score for modules 60%
 - Homes and communities agency contract – good assurance
 - Licensing – good assurance
 - Income/cash receipting – involvement with controls around closure of cashiers.
5. **Annex 1** shows the significant findings and recommendations from the reviews reported on in the period.

Follow ups

6. The following audits have been followed up:

- Concessionary bus fares
- Parking services operations
- Housing benefits (outsourced)

Progress against the audit plan

7. Details of the annual audit plan for 2010/11 are shown at **Annex 2**, showing the planned and actual days for each area of audit assurance work, plus non-audit and consultancy work shown separately.
8. The original plan anticipated a shortfall in resources of 50 days, part of which could be covered by outsourcing some audits. However, a member of the team has reduced their hours since the plan was agreed, which further increases the shortfall.
9. To the end of January 2011, 270 days has been spent on audit assurance work (including audits from the previous plan), 114 days on non-audit and consultancy work and 61 days on New Deal, a total of 445 days.
10. It is estimated that a further 127 days are required to complete the plan. As the available resources to the end of the year are estimated at 110 days, this would give an estimated shortfall of 12 days. However, this will increase due to recent staff sickness and the time needed to complete the final New Deal claim. The final position will be reported in the audit manager's annual report.
11. As with previous years, a budget is available to allow outsourcing of some audits and this has been used for five audits, one of which is complete and four are in progress (three draft reports issued). Some audits will also have to be slipped into 2011/12, and these are shown in the annex.

Summary of fraud team work

12. A summary of work by the fraud team to the end of October follows:

- Number of benefit cases referred - 789
- Number of benefit investigations – 621
- Number of benefit sanctions and prosecutions - 102 (46 simple cautions, 22 admin penalties and 35 prosecutions). The target for the year is 80.
- Investigation into council tax single person discount - 1 simple caution
- Number of calls to housing hotline to report possible subletting - 46
- Number of properties reclaimed as a result of investigations by the fraud team – 4 (the team also had some input into the recovery of two more properties by housing staff).

Progress against the counter fraud plan

13. There have been some notable achievements in counter fraud work this year.
14. As a result of the council's participation in the national subletting initiative, six properties have been recovered from tenants who were subletting council properties. Of these, four were a direct result of investigations by the fraud team.
15. Staff in the revenues section, with the assistance of Norfolk County Council, investigated single person discount matches from the national fraud initiative (NFI). To date this has resulted in discount being removed from nearly 850 accounts, which equates to additional revenue of approximately £280k.
16. The council received a proposal from a specialist data matching company to match our council tax records against their databases in order to identify possible addresses that were not on our records. This is usually the result of properties being converted into two or more dwellings without the council being informed. Investigations are still ongoing, but to date 34 properties have been added to our records, which equates to additional revenue of around £97k.
17. A summary of progress against the counter fraud plan is shown at **Annex 3**.

Progress against Audit Commission's national fraud initiative (NFI)

18. The results from the 2010 NFI data matching exercise were received at the end of January 2011.
19. In total there were just over 3000 matches spread over 59 reports covering benefits, housing, payroll, insurance claims, creditors, and transport passes (concessionary bus passes and permit parking).
20. Nine of the 59 reports have been closed as at 9 March 2011. Of the 59, 13 are considered to be key reports by the Audit Commission, and four of these have been closed.
21. A breakdown of all the matches follows, including status:

| <u>Report type</u> | <u>Number of matches</u> | <u>Status as at 9/3/11</u> |
|--------------------|--------------------------|----------------------------|
| Benefits | 1817 | 1150 cleared |
| Housing | 267 | 7 cleared |
| Payroll | 40 | 1 cleared |
| Insurance claims | 10 | 2 cleared |
| Creditors | 704 | 335 cleared |
| Transport passes | 215 | 11 cleared |

22. No fraud was revealed by the 1506 cleared cases.
23. Work is continuing to investigate all the outstanding matches, and where necessary staff have been identified and trained in the use of the secure NFI system in order to continue progress on investigations.
24. For information, members who wish to see the Audit Commission's report on the national results from the 2008-09 data matching exercise can view it on the NFI website at www.audit-commission.gov.uk/nfi/reports/pages/default.aspx

Significant Findings and Recommendations 2010/11

| Audit | Significant weakness | Recommendation | Management Response | Action Date |
|--|---|---|---|--------------|
| Treasury management (moderate assurance) | Treasury management records are not regularly reconciled to the GL records for investment / borrowing balances and interest earned / paid | Investment / borrowing balances and interest will be agreed on a monthly basis to the GL, and a full reconciliation, will continue to be made after each year end. | Agreed | April 2010 |
| Accounts payable (moderate assurance) | Internal controls do not provide full assurance that all purchase invoices have been accounted for | Reconcile supplier statements from major suppliers on a monthly basis (to ensure that all purchase invoices have been accounted for) | Monthly statements will be requested and reconciled for our Top 10 suppliers (by value) to identify any missing invoices. | August 2010 |
| | The authorised signatory list was not kept up to date. Authorisation controls not operating as expected (N.B. the manual ordering system has been replaced – orders are now placed via Oracle Financials – the following recommendation relates to this replacement system) | The Oracle system should be changed in order to only allow orders against approvers' cost codes. | Not agreed. There is a significant amount of set up and then maintenance required to do this. The benefit it brings is outweighed by the resource required to maintain the system. Oracle approvers will be reminded to check the code on the requisition and if it is not one of their codes they should reject it | - |
| | There is no independent review of changes or additions to the supplier master file | Ensure that changes and amendments to the supplier master file are independently reviewed. Evidence of the review should be retained. As payments by BACS increase, it is particularly important that suppliers' bank details are correct and that there are adequate controls over any amendments to these details. | For the team leader to review each account that it is set up is not practical. Agree that regular reviews should take place and that spot checks should be introduced. Procedure notes already provide guidance on how and when to accept new and amended bank account details. | October 2010 |

| Audit | Significant weakness | Recommendation | Management Response | Action Date |
|---|---|--|---|---------------|
| Accounts receivable (limited assurance) | The Council is currently in breach of Payment Card Industry (PCI) legislation | Ensure compliance with relevant Payment Card Industry (PCI) legislation by August 2010 | Waiting for amended software from a supplier to meet some of the requirements - we will not be compliant until this has been installed. There is also a need to buy additional hardware/software for mobile working, linked in to the Gov Connect requirements which is being treated as high priority work, but not able to comply by August | December 2010 |
| | There is inadequate segregation of duties in relation to accounts receivable activities | <p>Review current roles and responsibilities to ensure that there is adequate segregation of duties between staff raising invoices and staff reducing, cancelling or writing off debts.</p> <p>Review access rights to Oracle AR and use of management reports from the system to monitor transactions by staff.</p> | Strict segregation of duties across a team of only 3 individuals (2.4 FTEs) is difficult. The varied nature of the roles means that it is not possible to separate the processing of invoices, credit notes, write offs and receipts. I propose to spot check different transaction types which have posted, as part of my monthly reconciliation | October 2010 |
| | The control of the debt collection process is inadequate – some outstanding debts have been on the ledger for a number of years | Give serious consideration to redesigning the debt collection process | <p>Debt chasing is now more planned and timely and is being enhanced.</p> <p>Ongoing monthly discussions with service areas and legal services have paid dividends but the process can be improved. Lack of available resource is often a restriction. Working closely with the service accountants will bring more involvement in the</p> | - |

Annex 1

| Audit | Significant weakness | Recommendation | Management Response | Action Date |
|--|--|---|--|--------------------|
| | | | recovery decisions we take. Debt collection agency used for our domestic debtors. Management reporting will be addressed in Q2 2010 | September 2010 |
| Cemetery (limited assurance) | Operational proposals reported to executive and scrutiny not fully implemented. | Fully implement the report proposals | Immediate instructions from ESDM that all plots must be 4 interments. Committee report to be created to manage this and all other issues | June 2010 |
| | No overall reconciliation on each file of income/expenditure with a final total identifying cost/refund to the council | A reconciliation sheet of all income received and expenditure for each contract funeral will be created, identifying the final cost to the council and authorised by the budget holder when completed | Agreed. | June 2010 |
| Governance of key partnerships (good assurance for the corporate framework and HCA; moderate for CoNP) | No significant weaknesses | | | |
| Norman Centre (moderate assurance) | No significant weaknesses | | | |
| The Halls (moderate assurance) | There is no evidence of procedures covering external bar stock checks or the actions to take on receipt of the reports | Procedures to be implemented to cover external stock checks and any implications for internal check, ie frequency and reconciliations | Agreed | October 2010 |
| Right to buy (good assurance) | No significant weaknesses | | | |

Annex 1

| Audit | Significant weakness | Recommendation | Management Response | Action Date |
|--|---|---|---------------------|-------------|
| Business continuity management | Mission critical activity prioritisation and threat analysis needs to be improved | <p>The mission critical activity list needs to be developed to have a greater degree of prioritisation, to be widely understood and supported and to have greater rationale behind the priorities as well as the underlying process or system requirements. There should only be one list.</p> <p>Develop a detailed threat analysis which includes key mitigation measures</p> | Agreed | In progress |
| | There is no consistent "big picture" understanding of the main strategies for dealing with the main threats | The council should consider developing a simple corporate overview of the main threats and the preferred strategies. | Agreed | In progress |
| | | | | |
| Homes and communities agency contract (good assurance) | No significant weaknesses | | | |
| | | | | |
| Licensing (good assurance) | No significant weaknesses | | | |
| | | | | |

| Internal Audit Plan 2010-11 | | | | | | |
|--|-----------------------|------------------------|-----------------------------------|-----------------------|-----------------|--|
| Audit Assurance Work | 2010-11 | | | Previous Years | Priority | Comments |
| | Estimated Days | Actual to Wk 44 | Estimated time to complete | | | |
| Fundamental Systems | | | | | | |
| Purchasing & payments | 15 | 6.6 | 1 | | H | Draft report |
| Debtors/recovery | 15 | 0.0 | 1 | | H | Outsourced - draft report |
| Payroll | 15 | 0.0 | 0 | | H | Outsourced - March |
| Housing rents | 15 | 3.2 | 0 | | H | Request to slip due to A Comm inspection |
| Income/cash receipting | 15 | 13.0 | 0 | | H | Complete |
| Treasury & cashflow management | 15 | 0.0 | 0 | | H | Slip to 2011-12 |
| Housing/c tax benefits, incl. fraud team | 15 | 0.0 | 0 | | H | Outsourced - draft report |
| Council tax/NDR | 15 | 14.2 | 5 | | H | Council tax draft report. NDR in progress |
| Asset management - non-housing | 10 | 7.5 | 5 | | H | In progress |
| Sub-total | 130 | 44.5 | 12 | | | |
| Corporate Resources | | | | | | |
| Customer contact | 20 | 0.0 | 0 | | H | Outsourced - draft report |
| General ledger | 10 | 0.0 | 10 | | H | |
| Licensing | 15 | 15.1 | 1 | | H | Draft report |
| HR - recruitment | 15 | 3.1 | 10 | | H | In progress |
| Procurement and purchase cards | 15 | 11.4 | 4 | | H | Draft report |
| Sub-total | 75 | 29.6 | 25 | | | |
| Regeneration & Development | | | | | | |
| Private sector leasing | 10 | 0.0 | 10 | | H | |
| Housing repairs/decent homes | 10 | 0.0 | 10 | | H | |
| Car parks - MSCP/P&D | 15 | 11.8 | 1 | | H | Draft report |
| Homes & Communities Agency contract | 10 | 7.7 | 0 | | H | Complete |
| Neighbourhood teams | 10 | 0.0 | 0 | | H | No spend from participatory budgets in 2010-11 |
| Care & repair | 10 | 0.0 | 0 | | M | Slip to 2011-12 |
| Choice based lettings | 10 | 0.1 | 10 | | H | |
| Sports facilities | 5 | 0.4 | 0 | | M | Slip to 2011-12 |
| Sub-total | 80 | 20.0 | 31 | | | |
| Cultural Services | | | | | | |
| Leisure Centre | 5 | 0.0 | 0 | | M | Slip to 2011-12 |
| Sub-total | 5 | 0 | 0 | | | |

| | Estimated Days | Actual to Wk 44 | Estimated time to complete | Previous Years | Priority | Comments |
|---------------------------------------|----------------|-----------------|----------------------------|----------------|----------|---------------------------------------|
| Corporate | | | | | | |
| Ad-hoc investigations | 20 | 27.1 | 0 | | M | |
| Probity | 10 | 17.9 | 2 | | H | Relates mainly to accounts payable |
| Perf. mgt. system/national indicators | 10 | 0.0 | 5 | | H | National indicators dropped |
| Business continuity/emergency mgt. | 10 | 0.3 | 0 | | H | Outsourced - complete |
| Capital programme/major contracts | 20 | 0.0 | 10 | | H | Possible part outsource |
| Grants - various services | 10 | 5.9 | 4 | | H | In progress. LEGI & Interreg complete |
| Outsourced IT audits | 10 | 5.7 | 0 | | H | IT risk assessment outsourced |
| Sub-total | 90 | 56.9 | 21 | | | |
| To complete 2009-10 plan: | | | | | | |
| Accounts receivable | 10 | 12.1 | 0 | 7.5 | H | Draft report |
| Community alarm service | 0 | 7.9 | 2 | 0.0 | H | In progress |
| Right to buy | 10 | 25.7 | 0 | 0.0 | H | Complete - good assurance |
| HR - leavers | 10 | 0.0 | 0 | 0.9 | H | Combined with recruitment (above) |
| Land searches | 10 | 15.4 | 1 | 1.0 | H | Draft report |
| Cemetery | 5 | 15.3 | 0 | 5.6 | H | Complete - limited assurance |
| The Halls | 5 | 13.3 | 0 | 15.3 | H | Complete - moderate assurance |
| Treasury management | 0 | 3.9 | 0 | 32.4 | H | Complete - moderate assurance |
| Partnerships framework | 0 | 0.0 | 0 | 0.0 | H | Outsourced - good assurance |
| Norman Centre | 5 | 10.3 | 0 | 13.2 | H | Complete - moderate assurance |
| Sub-total | 55 | 103.9 | 3 | | | |
| Follow-ups and post audit work | 15 | | | | H | |
| Concessionary bus fares | | 5.2 | | | | From moderate to good assurance |
| Parking services - operations | | 6.1 | | | | From limited to moderate assurance |
| General | | 3.4 | | | | Post-audit work not requiring reports |
| Sub-total | 15 | 14.7 | 0 | | | |
| Total for audit assurance work | 450 | 269.6 | 92 | | | |

| | Estimated Days | Actual to Wk 44 | Estimated time to complete | Previous Years | Priority | Comments |
|--|----------------|-----------------|----------------------------|----------------|----------|---|
| <u>Non-audit & consultancy work</u> | | | | | | |
| New Deal - grant claims | 30 | 61.4 | 15 | | H | 2009-10 claim & asset register |
| Corporate governance | 30 | 17.0 | 5 | | H | VFM (use of resources); AGS |
| Fraud plan, incl. NFI | 40 | 32.6 | 4 | | H | NFI 2010 data uploaded & matches received |
| Risk management | 10 | 16.9 | 2 | | H | Setting up corporate risks on Aspireview |
| Financial appraisals/tenders/final a/cs | 10 | 11.7 | 1 | | L | Work to transfer function to Procurement |
| Advice, unplanned work, requests | 35 | 35.5 | 3 | | M | Incl. transformation work |
| Total for non-audit/consultancy work | 155 | 175.1 | 30 | | | |
| Total audit and non-audit work | 605 | 444.7 | 122 | | | |
| <u>Audit Resources Available 2010-11:</u> | | | | | | |
| Total available days (after allowance for holidays and sickness) | | | 790 | | | |
| <u>Less</u> Allowance for non-chargeable days: | | | | | | |
| Management/Administration | 175 | | | | | |
| Training | 20 | | | | | |
| Other | 40 | | 235 | | | |
| Planned chargeable days | | | 555 | | | |
| Resources needed for audit plan (above) | | | 605 | | | |
| Original projected shortfall | | | -50 | | | |
| <u>Resource plan as at end Jan 2011:</u> | | | | | | |
| Planned chargeable days | | | 555 | | | |
| Planned days used | | | 445 | | | |
| Planned days remaining | | | 110 | | | |
| Required days to complete plan | | | 122 | | | |
| Current projected shortfall | | | -12 | | | |

Internal Audit and Fraud

Counter Fraud Plan 2010-11

| Area | Comments | Resourcing | Progress in 2010-11 |
|---------------------------------------|---|---|--|
| Housing – unlawful subletting | <p>Highlighted as a risk in ‘Protecting the Public Purse’.</p> <p>This risk is the subject of a national initiative – the council received a grant for participating. Pilot data matching already carried out, results currently being evaluated. Depending on results, may extend data matching in 2010/11.</p> <p>We also receive potential tenancy matches from NFI results, and these will be investigated.</p> | Fraud team in conjunction with housing staff | <p>The fraud team has been solely responsible for recovering four properties by way of investigation (three of which came from the hotline and were given rewards).</p> <p>The team also had significant input into the recovery of two more.</p> <p>Three neighbourhood housing officers have been given training on housing fraud investigations. Also, the benefit service is training all housing officers on how to look at benefit systems to cross-match data and reduce fraud and error.</p> <p>A housing manager has been nominated to investigate the 267 tenancy matches from NFI.</p> |
| Council tax – single person discounts | <p>Highlighted as a risk in ‘Protecting the Public Purse’.</p> <p>We also receive potential matches from NFI results, and these will be investigated.</p> <p>Joint funding to help with the resourcing of investigations will be explored.</p> | Fraud team and council tax staff. Possibility of joint funding for extra resources | <p>The result of our joint work was picked up by the Audit Commission and included on its case study website:</p> <p><i>“Norwich City carried out a joint working initiative with Norfolk County Council to investigate their NFI council tax to electoral register matches.</i></p> <p><i>The Councils investigated over 1500 matches and identified nearly 850 households who were wrongly claiming the 25 per cent single person discount on their council tax bills. As a result the city council is recovering a total of £280,542, as well as preventing further losses being incurred had those erroneous discounts continued.”</i></p> |

Annex 3

| | | | |
|--|---|----------------|--|
| Council tax – missing addresses | Not in original counter fraud plan. The council was approached by a specialist data matching company to participate in an exercise to look for properties that were not on the council tax and Valuation Office databases. | Fraud team | To date 34 properties across various bands have been added to council tax records, total additional revenue of £97,254 |
| Recruitment | Highlighted as a risk in 'Protecting the Public Purse'. Included in draft internal audit plan for 2010/11. | Internal audit | Currently in progress |
| Housing and council tax benefit | Highlighted as a risk in 'Protecting the Public Purse'. Experience shows that this continues to be an area with a high risk of fraud, and is the main target for the work of the fraud team. We also receive potential matches from NFI results, and these will be investigated. | Fraud team | Ongoing work. To date 102 people have had further action taken against them (46 cautions, 21 admin penalties and 35 prosecuted) in benefit cases, with overpayments identified of £253,046 for these cases. Within the NFI matches there are 1,817 cases related to benefits and to date 1039 have been cleared. |
| Procurement | Highlighted as a risk in 'Protecting the Public Purse'. Included in draft internal audit plan for 2010/11. | Internal audit | Audit of Oracle purchasing module currently in progress |
| Insurance claims | Highlighted as a risk in 'Protecting the Public Purse'. Our insurance arrangements were included in the internal audit plan for 2009/10, and a final report was issued which gave adequate assurance. The report findings will be followed up in 2010/11. We also receive potential matches from NFI results, and these will be investigated. | Internal audit | 10 matches from NFI currently being investigated – no evidence of fraud found so far. |
| Purchase cards | Potential for over £1m. spend annually, with further roll out possible | Internal audit | Draft report issued with several recommendations to improve control. No evidence of fraud found |
| Private sector leasing – payments to landlords | Large number of landlords paid on a regular basis, many of whom are individuals | Internal audit | No progress |