Report to	Audit committee	**Item**
	20 January 2015	
Report of	Head of internal audit and risk management, LGSS	**6**
Subject	Internal audit and fraud team 2014-15 – November to December update	

Purpose

To advise members of the work of internal audit between November and December 2014 and progress against the 2014-15 internal audit plan, together with the work of the fraud team between April and December 2014.

Recommendations

To note:

(1) the work of internal audit between November and December 2014;

(2) the progress on the 2014-15 internal audit plan;

(3) the work of the fraud team between April and December 2014;

(4) the latest position on the national fraud initiative (NFI);

(5) the latest counter fraud developments;

(6) the Audit Commission's *Fraud Briefing 2014.*

Corporate and service priorities

The report helps to meet the corporate priority "Value for money services".

Financial implications

None.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

Contact officers

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Background documents

None

Report

Background

1. The internal audit plan for 2014-15, was endorsed by members in March 2014.

2. This report covers the following areas:

   - audit assurance work November to December 2014, plus other areas of non-assurance work

   - the audit plan 2014-15, showing progress against planned audits

   - summary of fraud team work April to December 2014

   - the latest position on the national fraud initiative (NFI).

3. For each audit assurance review a report is presented to the relevant head of service, including recommended actions to be taken. Audits are subsequently followed up to ensure that the agreed actions have been implemented.

Audit assurance work November to December 2014

4. The following areas were reported on between November and December:

   - Land and property searches – substantial assurance. There was assurance across completeness and promptness of responses, and fee collection.

     However, a review of the process for setting discretionary fees is required to ensure it complies with regulations; no reconciliation of income to the general ledger is carried out; certain statutory public records are maintained in paper format and would benefit from being made electronic.

     Six recommendations were agreed which are due to be implemented by the end of June 2015.

   - Workforce IT system – substantial assurance. Workforce is the Council's HR system used to record all forms of staffing activities. There was assurance across most of the areas including system administration procedures; input, processing and output controls; system interface controls; audit trails; and backup and disaster recovery.

     However, the procedure for recording changes to corporate systems is incomplete and some risks specific to application systems have not been identified, documented and adequate controls put in place.

     Two recommendations were agreed which are due to be implemented by the end of December 2014.

   - Income from street trading consents – substantial assurance. There was assurance across the processes for issuing consents, setting up invoices and collecting income, and there is currently no outstanding debt.

     However, fees have not changed for a number of years and there is no extra charge for the use of electricity; staff can vary fees without further authorisation; and inconsistencies were found between the fees quoted in some consents and the amount actually invoiced.

Five recommendations were agreed which are due to be implemented by the end of December 2014.

5. Other assurance work which is in progress is shown in **appendix 1**.

Non-assurance work

6. The main areas of non-assurance work in the period were:

- Reporting the council's risk management policy and corporate risk register to cabinet in December.

- Checking and uploading council tax and electoral register datasets for the NFI 2014-15 data matching exercise.

Progress against the audit plan

7. Details of the annual audit plan for 2014-15 are shown at **appendix 1**, showing estimated and actual days for each area of audit assurance work, with non-assurance work shown separately.

8. To the end of December 2014, 251 days has been spent on audit assurance work. This includes work on audits started at the end of 2013-14 but not completed. 69 days were also spent on non-assurance work and unplanned request work.

9. Two of the IT audits are complete; the three others have had draft reports issued and should be completed by the end of January.

10. In lieu of changed circumstances appertaining to some planned audits and reviews of planned coverage with senior management, the following amendments to the plan are proposed:

Table 1: Proposed Changes to the Audit Plan

Area	Assignment	Addition	Deletion	Amendment
Fundamental Systems	NCC Payroll			√
	Housing Rents			√
	Housing Benefits			√
	Council Tax			√
	NNDR			√
Corporate	Income Generation	√		
	Joint Ventures	√		
Business Relationship Management	Financial Systems Replacement		√	

11. Subject to the agreement of the committee to the proposed changes, a revised forecast of the audit plan will be agreed with the chief finance officer.

12. Implementation of the planned restructure of the LGSS internal audit service has been delayed, which has had an impact on delivery of the audit plan. Resources have, however, been utilised from within the wider LGSS internal audit team in the delivery of the 2014-15 plan.

13. It has also been agreed with the external auditor that where the last audit of a key financial system resulted in full or substantial assurance, we will tailor our audit work to reflect previous findings when these systems are audited in Q4.

14. This means we will follow up previous recommendations; undertake an analytical review; and confirm and walk through the key controls. Findings will still be formally reported to management.

15. This approach will be applied to payroll (substantial assurance); housing rents (full); housing benefits (substantial); council tax (substantial); and NNDR (full).

Summary of fraud team work April to December 2014

16. A summary of work by the fraud team in the current year follows (figures in brackets are for the 2013-14 comparator):

- Number of benefit cases referred to the fraud team – 502 (666)
- Number of referred benefit cases investigated – 289 (374)
- Number of benefit sanctions and prosecutions – 60 (30)

17. At the end of December the fraud team had identified benefit overpayments in excess of £377,350. The annual KPI for this is £160,000 (approximate running costs of the fraud team), so this measure has already been substantially exceeded. Each case of fraud or customer error results in a subsidy payment of 40% of the total overpaid amount to the authority, therefore the team have almost paid for themselves in subsidy returns alone (£151,000).

18. By the end of December the fraud team had completed 60 sanctions and prosecutions (the total for the whole of 2013-14 was 40).

National fraud initiative (NFI) 2012-13

19. This is the main data matching exercise by the Audit Commission which occurs every two years. The results were received at the end of January 2013.

20. There are no changes to the figures previously reported, with the exception that 99% of reports have now been closed; therefore the details are not repeated here.

NFI 2014-15

21. All of the required datasets for the 2014-15 data matching exercise in October 2014 have been uploaded. The resulting matches for possible investigation should be made available by the end of January 2015.

Latest counter fraud developments

Counter fraud fund

22. In July 2014, the DCLG invited English local authorities to submit proposals for a Counter Fraud Fund, which in total amounted to £316m over 2014-15 to 2015-16. The Department set out that they were keen to fund innovative joint proposals and partnership bids.

23. LGSS internal audit submitted a bid in September 2014, the theme of which was "The Development of a Regional Multi-Organisational Counter Fraud Operation" from a current base of Cambridgeshire and Northamptonshire County Councils, Norwich City Council and Northamptonshire Partnerships Homes / Northampton Borough Council.

24. The intention of the proposal was to enable LGSS to enhance its existing capacity and capability to offer counter fraud and investigative services to councils throughout East Anglia and the East Midlands.

25. Since the previous audit committee in November 2014, it has been announced that LGSS internal audit has been successful and an award of £329,000 has been made.

26. In December 2014, the Communities Minister, Lord Ahmad, visited Cambridgeshire County Council to be briefed about how the funds will be utilised. Details of this meeting can be found on the LGSS website.

27. The various strands of the proposal are now at the initial stages of being project managed and governance and monitoring arrangements to the DCLG have been established. Internal governance responsibilities will also include regular updates on progress to the audit committee.

28. Discussions with senior management at Norwich City Council will occur to mutually address non benefit-fraud for the council for 2015-16.

Single Fraud Investigation Service (SFIS) update

29. The fraud team has been liaising with DWP counterparts in preparation for the transfer of benefit fraud work. New benefit fraud referrals will be routed directly to the DWP from 2 March 2015 and the council fraud team will cease any benefit investigations by Friday 27 March.

30. Potentially, all fraud team members are in scope to transfer to the DWP from 1 April 2015; this will include relocation to a DWP fraud site. It is up to the council to deem which posts are in scope and the DWP has no restriction on numbers who can transfer.

31. By 1 April 2015, the benefits service must have in place a Single Point of Contact (SPoC) to handle all benefit related traffic from and to the DWP SFIS.

32. Norwich City Council has yet to say how non-benefit fraud referrals (tenancy, right to buy, procurement, insurance, council tax, business rates, internal) will be managed and investigated, but expect some investigation support from those posts funded through the DCLG fund

Housing tenancy fraud

33. Housing management team has commissioned a data matching exercise to help assess existing tenancies and investigate possible tenancy fraud. Callcredit's 'ThreeSixty Tenant View' is a batch data matching product which compares the council's tenant data to other datasets to ensure that the expected tenants are still resident or, where this is not the case, trace the expected tenants and name the current occupiers. Results are delivered in summary form together with a detailed report for each property where fraud may be taking place, to enable further investigation.

34. Of 1,500 tenancies checked so far, 12 have resulted in some form of action, ranging from simple updating of records to declaring for benefit purposes. However, no properties have been recovered as a result of tenancy fraud, which indicates that existing checks and reviews seem to be effective.

Audit Commission closure and CIPFA's counter fraud work

35. In advance of the closure of the Audit Commission in March 2015, their counter fraud team has now closed. Following a due diligence exercise DCLG and CIPFA agreed that the intended transfer of the team to CIPFA should not proceed. Accordingly, online relevant counter fraud tools and outputs will be published before the Commission closes, which will be openly available. This will not put CIPFA's counter fraud centre of excellence at risk, and DCLG continues to work closely with CIPFA, the LGA and other key stakeholders on promoting counter fraud in local government, including the DCLG recently announced £16m investment in new projects.

36. As far as we know, the *Protecting the Public Purse* (PPP) reports and the annual fraud and corruption surveys (and associated fraud briefings) will be discontinued. CIPFA have published a Code of Practice on Managing the Risk of Fraud and Corruption and will take-on the *Fighting Fraud Locally* (FFL) role. An end of year FFL document will continue and some of the areas covered by PPP may be picked up in that. The FFL page will continue on the CIPFA site and will be populated with free counter fraud tools wherever possible.

Audit Commission *Fraud Briefing 2014*

37. The council's submission for the Audit Commission's fraud and corruption survey 2013-14 was reported to audit committee in July 2014. Following this the Audit Commission has produced a final fraud briefing containing comparative information on the council's fraud detection performance based on the survey's results. The briefing is attached at **appendix 2** for members' information.

38. Please note that there is a minor error in the briefing: on the page headed *Other frauds 2013/14*, in the box for internal fraud it states that "Norwich detected this type of fraud and did not report the number of cases." In fact, no cases of internal fraud were detected.

LGSS Internal Audit - Internal Audit Plan for Norwich City Council 2014-15

Audit Assurance Work	2014-15		Comments/latest position
	Estimated days	Actual to Wk 40	
Fundamental systems			
Purchasing	20	26.0	Complete
Accounts receivable (debtors)	15	14.9	In progress
NCC payroll	15	0.3	Preparation
Housing rents/arrears	20		
Housing & council tax benefits	25		
Council tax	15		
NNDR	15		
Sub-total	**125**	**41.2**	
Corporate			
Procurement & contract management arrangements:	35		Allowance for possible input to tendering, monitoring, procedural compliance. Involvement in specific contracts. Plus presence on project teams
New bank contract		19.2	Audit presence on project team
NPS		3.0	Preparation
Parking permits		0.8	
Claims certification	20		
Probity	20	3.9	Income from street trading complete
Sub-total	**75**	**26.9**	
Business relationship management			
Financial IT system replacement	30		Upgrade or replace Oracle Financials. Q4
Council tax & NNDR systems	15		VFM review - impact of scheme changes on collection rates
ICT audits:	60	70.9	Incl. embedded assurance - Corporate Information Assurance Group; input to IT audits
Civica			Draft report issued
Northgate			Draft report issued
Workforce			Complete
Parking Gateway			Complete
Bacstel IP			Complete
Sub-total	**105**	**70.9**	
Operations			
CIL income	10		January, if sufficient transactions
Provision market	15	11.8	Complete
Licensing	10		Jan/Feb 2015
Leasehold services	15		Q4
Cemeteries	15		Q4
Home improvements	15	5.3	In progress
Parking income	15	8.5	In progress
Sub-total	**95**	**25.6**	

Audit Assurance Work	Estimated days	Actual to Wk 40	Comments/latest position
Customers, communications & culture			
Land charges	10	14.5	Complete
Sub-total	**10**	**14.5**	
Non-specific			
Ad-hoc investigations	20	3.4	Contingency (no major investigations to date)
To complete 2013-14 plan	35		
Managing customer demand		6.1	Complete
Payroll		3.9	Complete
NNDR		5.4	Complete
C Tax		5.2	Complete
Commissioning		0.0	Testing complete
Housing benefits		5.6	Complete
Treasury management		0.6	Complete
Purchase cards		13.9	Complete
Accounts payable		12.0	In progress
Follow-ups	25	15.8	Follow ups required by PSIAS
Sub-total	**80**	**71.9**	
Total for audit assurance work	**490**	**251.0**	
Consultancy & non-assurance work			
Corporate governance	30	14.6	Preparation of AGS; corporate governance group; update code of governance
Anti-fraud and NFI work	45	32.9	Fraud risks; key contact for NFI 2014-15 (upload data & ensure matches investigated)
Advice, unplanned work requests	35	21.7	Contingency
Total for non-assurance/consultancy work	**110**	**69.2**	
Total Allocated Days	**600**	**320.2**	
Indicative resources post-restructure			
Head of audit	10		
Principal client auditor	140		
Client auditors	400		
LGSS support	50		
	600		

Protecting the Public Purse Fraud Briefing 2014

Norwich City Council

Purpose of Fraud Briefing

Provide an information source to support councillors in considering their council's fraud detection activities

Extend an opportunity for councillors to consider fraud detection performance, compared to similar local authorities

Give focus to discussing local and national fraud risks, reflect on local priorities and the proportionate responses needed

Be a catalyst for reviewing the council's current strategy, resources and capability for tackling fraud

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Understanding the bar charts

Outcomes for the first measure for your council are highlighted in yellow in the bar charts. The results of your comparator authorities are shown in the green bars.

Outcomes for the second measure for your council are highlighted as a green symbols above each bar. The results of your comparator authorities are shown in the white triangles.

A '*' symbol has been used on the horizontal axis to indicate your council.

All data are drawn from council submissions on the Audit Commission's annual fraud and corruption survey for the financial year 2013/14.
In some cases, council report they have detected fraud and do not report the number of cases and/or the value.
For the purposes of this fraud briefing these 'Not Recorded ' records are shown as Nil.

Comparator group

Breckland
Broadland
Cambridge
Cheltenham
Chesterfield
Crawley
Exeter
Gloucester
Great Yarmouth
Harlow
Ipswich
Kings Lynn and West Norfolk
Lincoln
North Norfolk
Northampton
Norwich
Oxford
Preston
South Norfolk
Stevenage
Welwyn Hatfield

Interpreting fraud detection results

Contextual and comparative information needed to interpret results
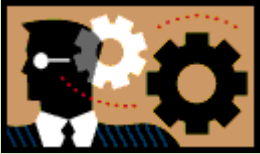
Detected fraud is indicative, not definitive, of counter fraud performance *(Prevention and deterrence should not be overlooked)*

No fraud detected does not mean no fraud committed *(Fraud will always be attempted and even with the best prevention measures some will succeed)*

Councils who look for fraud, and look in the right way, will find fraud *(There is no such thing as a small fraud, just a fraud that has been detected early)*

Total detected cases and value 2013/14 (Excludes Housing tenancy fraud)
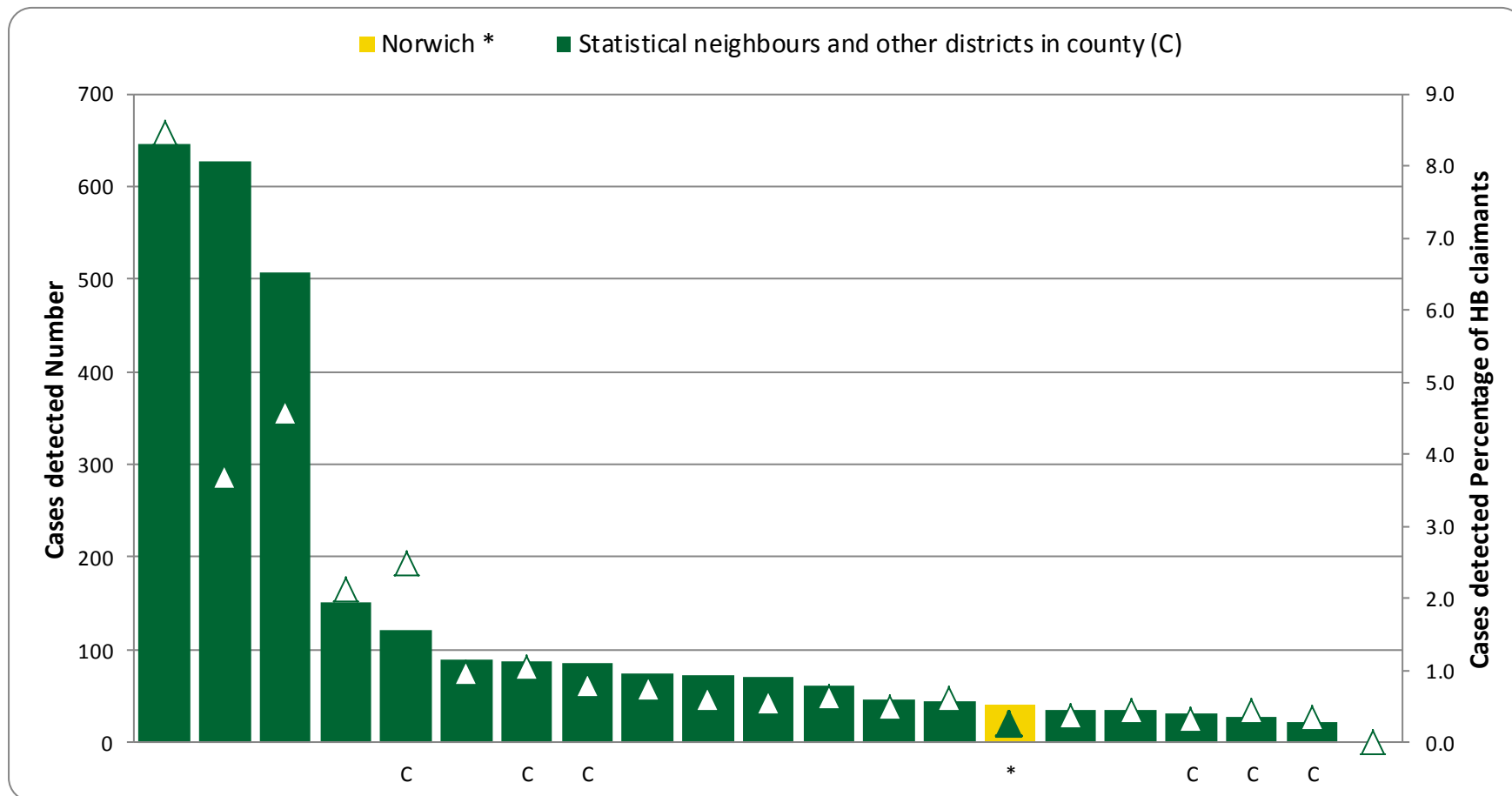
Norwich
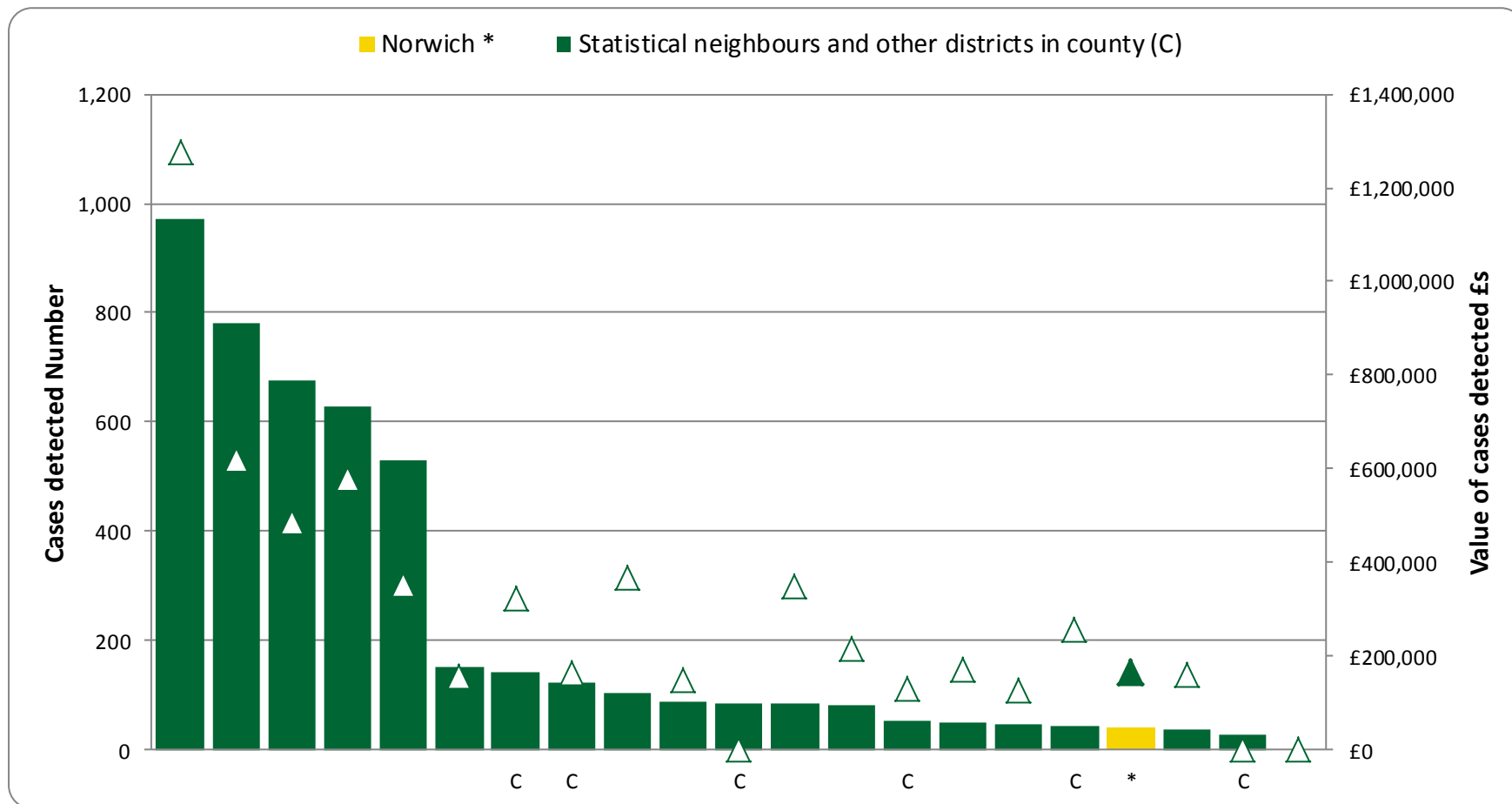
Norwich detected 41 cases of fraud. The value of detected fraud was £164,315.
Average for statistical neighbours and county: 235 cases, valued at £294,191

Housing Benefit (HB) and Council Tax Benefit (CTB) 2013/14
Total detected cases, and as a proportion of housing benefit caseload
Norwich

Norwich detected 40 cases of this type of fraud. The value of detected fraud was £163,291.
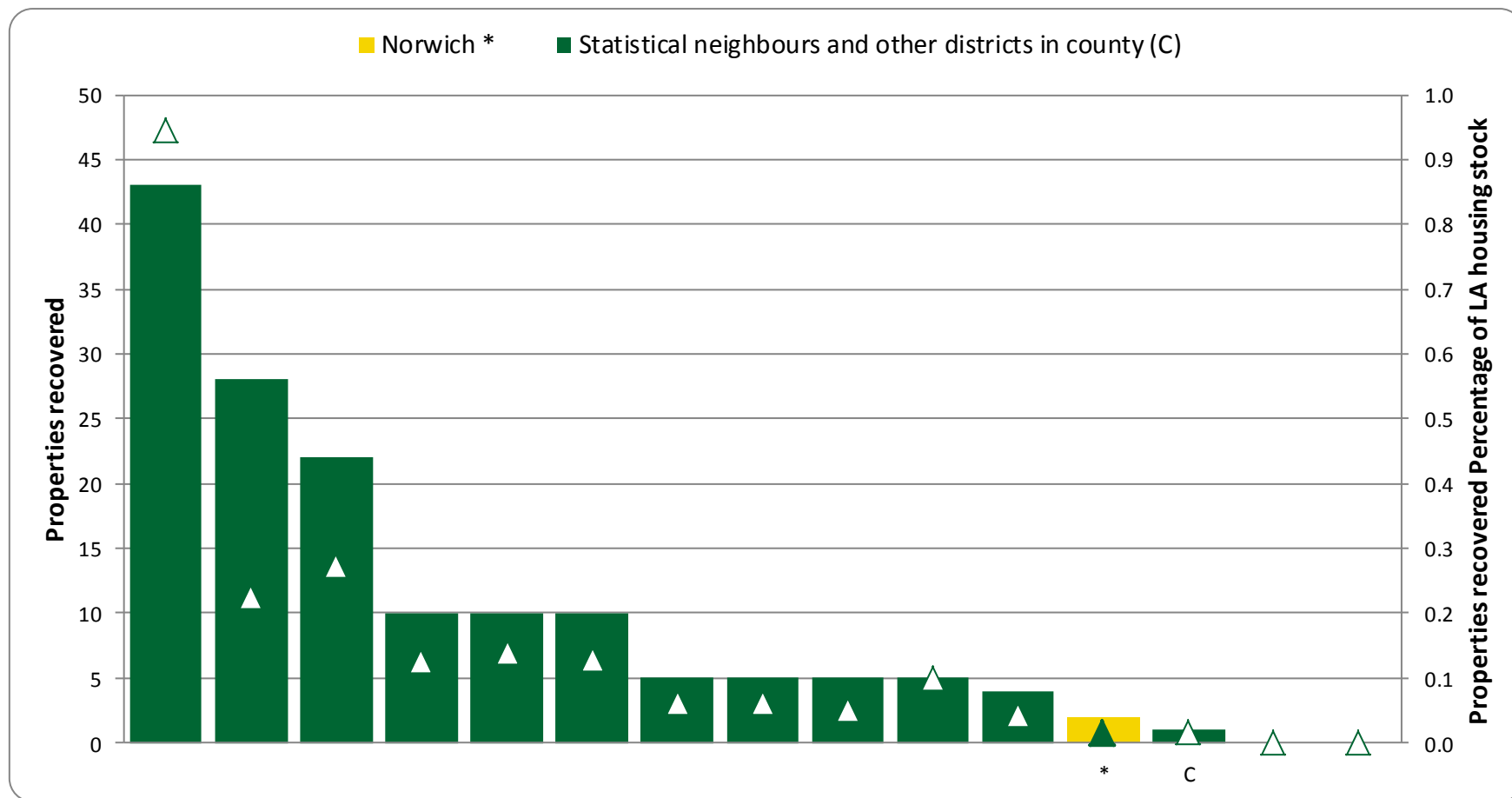Average for statistical neighbours and county: 142 cases, valued at £264,946

Council tax discount fraud 2013/14
Total detected cases, and as a proportion of council tax income
Norwich

Norwich detected 1 case of this type of fraud. The value of detected fraud was £1,024.
Average for statistical neighbours and county: 76 cases, valued at £23,893

Social Housing fraud (only councils with housing stock) 2013/14 Total properties recovered, and as a proportion of housing stock
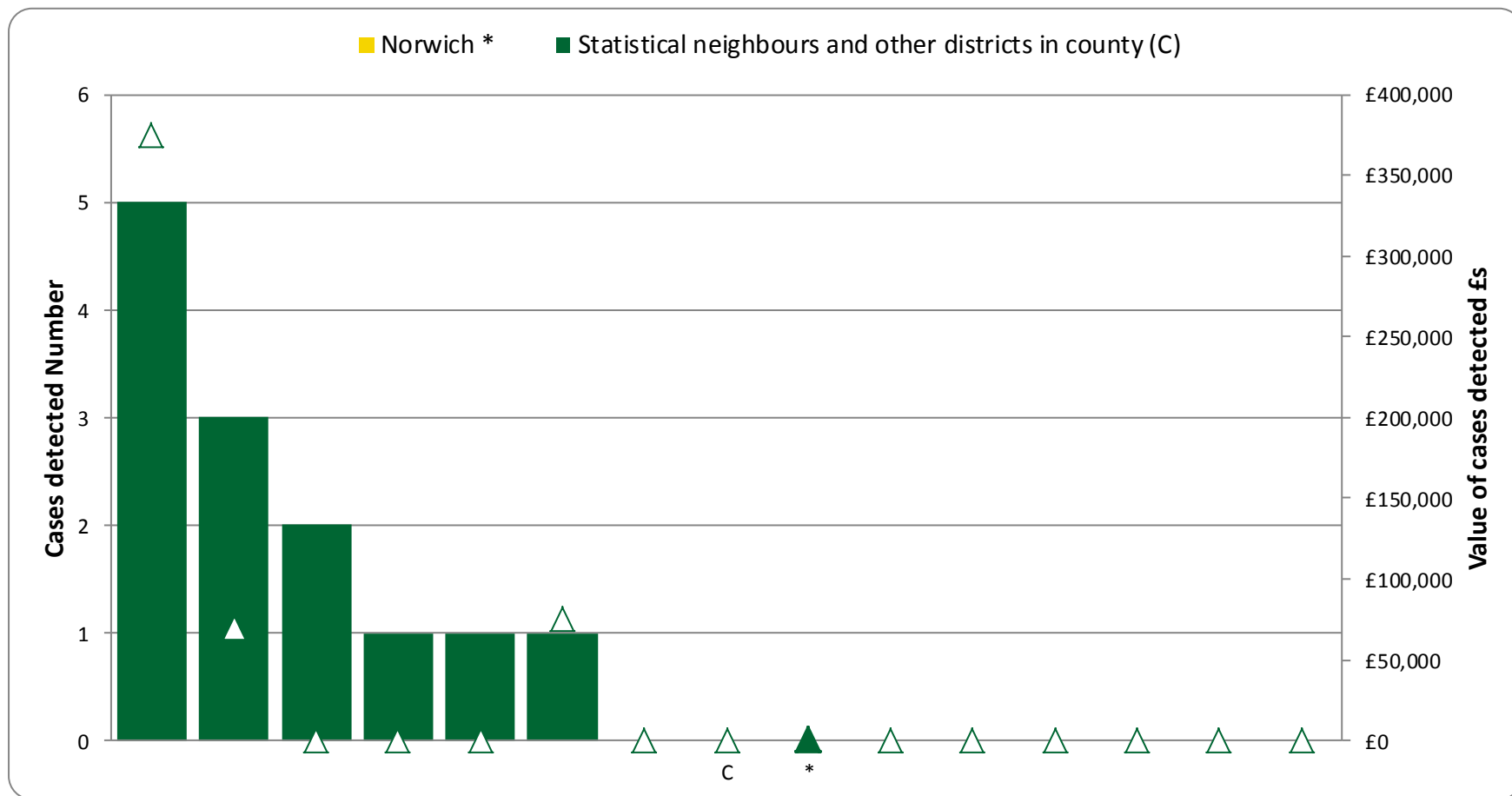
Norwich

Norwich recovered 2 properties.
Average for statistical neighbours and county with housing stock: 11 cases

Right to buy fraud (only councils with housing stock) 2013/14
Right to buy cases and value
Norwich

Norwich did not detect any cases of this type of fraud.
Average for statistical neighbours and county with housing stock: 1.0 case, valued at £130,000

Norwich

Procurement: Norwich did not detect any cases of this type of fraud.
Total for statistical neighbours and county: 1 case, valued at £36,000

Insurance: Norwich did not detect any cases of this type of fraud.
Total for statistical neighbours and county: 1 case, valued at £0

Economic and third sector: Norwich did not detect any cases of this type of fraud.
Total for statistical neighbours and county: 0 cases

Internal: Norwich detected this type of fraud and did not report the number of cases.
Total for statistical neighbours and county: 14 cases, valued at £19,565

*Correctly recording fraud levels is a central element in assessing fraud risk.
It is best practice to record the financial value of each detected case*

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Questions elected members and decision makers may wish to ask

Post SFIS	Local priorities	Partnerships	Using information and data
Are our remaining counter-fraud resources and skill sets adequate after our benefit fraud investigators have left to join SFIS?	Are local priorities reflected in our approach to countering fraud?	Have we considered counter-fraud partnership working?	Are we satisfied that we will have access to comparative information and data to inform our counter-fraud decision making in the future?

Any questions?