Report to	Audit committee	**Item**
	11 March 2014	
Report of	Head of internal audit and risk management, LGSS	8
Subject	Internal audit and fraud team 2013-14 – November to February update	

Purpose

To advise members of the work of internal audit and the fraud team between November 2013 and February 2014, and progress against the 2013-14 internal audit plan.

Recommendations

To note the:

(1) work of internal audit between November 2013 and February 2014

(2) the progress on the internal audit plan

(3) the work of the fraud team between November 2013 and February 2014

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

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

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Background documents

None

Report

Background

1. The internal audit plan for 2013-14 was endorsed by members in March 2013.

2. This report covers the following areas:

    - audit assurance work November 2013 to February 2014

    - other areas of non-assurance and financial consultancy work

    - the audit plan 2013-14, showing progress against the plan

    - summary of fraud team work November 2013 to February 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 2013 to February 2014

4. The following areas were reported on between November 2013 and February 2014:

    - Business continuity management – this review involved completing a scorecard to assess the level to which the council complies with BS25999-1 and best practice in business continuity management. This included work on business continuity plans, exercises and incidents, business impact analysis and resources. The review concluded that the council had scored 63% overall against the scorecard. Recommendations were agreed, but some require consideration at CLT.

    - Academy housing IT system – moderate assurance. There are good arrangements in place over secure hosting of the servers, a formal access request system, backup procedures, a change management system, and test environment. There were good documents around proposed changes by Capita, routine operational tasks in IT, and completion of work requests. Recommendations relating to documentation updates, access controls, program change management and the reporting of system problems were agreed and are due to be implemented by February 2014.

    - Norman Centre – substantial assurance. There was assurance over income collection, reconciliation and banking procedures, and membership/discount cards. Recommendations relating to further security of cash and premises and public liability insurance were agreed and are due to be implemented by February 2014.

    - General ledger – substantial assurance over procedures for raising and authorising journals and departmental transfers. Management were already aware of instances of low level non-compliance with procedures, so no recommendations were necessary.

- Contract management in NPS – substantial assurance. There was assurance over recording keeping and management oversight of major contracts, and controls within Oracle purchasing. Recommendations were agreed to improve written procedures and procedures for disputed invoices in NPS, and improve record keeping in LGSS accounts payable for certain types of urgent payment. Some of the recommendations have already been implemented and should all be complete by February 2014.

- Community infrastructure levy (CIL) – substantial assurance. CIL is a statutory mechanism to allow charging on new buildings to help pay for infrastructure. The council implemented CIL in July 2013, but few transactions were expected in 2013-14. The purpose of the audit was to review the designed controls prior to income being received. There was assurance over ICON and Civica processes, and accounting procedures and work flows to manage the reconciliation of payments. Recommendations were agreed in respect of improving certain Civica processes; training another member of staff in finance; and considering what proportion of CIL will be used to offset administrative expenses. Some of the recommendations have already been implemented and should all be complete by April 2014.

- Budgetary control relating to general fund, housing revenue and capital programmes – full assurance. There are nominated budget managers with access to guidance, training and timely information; significant variances are investigated; and the latest position on revenue budgets and capital programmes is regularly reported to senior managers and members. Two minor recommendations were agreed in relation to tightening the use of 'miscellaneous' codes and are due to be implemented by April 2014.

- Housing rents – full assurance. There are robust procedures for updating the housing rents system and general ledger; arrears are closely monitored; reconciliations are carried out promptly; and write-offs are appropriately authorised. Minor recommendations were agreed in relation to strengthening the evidence of testing for annual rent increases and the value of individual write-offs, and are due to be implemented by June 2014.

- Customer contact (general processes) – moderate assurance. The audit involved a review of the customer contact and business support teams. Due to a number of issues that were found in relation to parking permits and other controlled stationery it was decided to report on these separately (see below). For general processes, which include cash income, there was assurance over the handling of cash, reconciliations and security measures, plus robust procedures for dealing with penalty charge notices and parking dispensations. Recommendations were agreed stop occasional hand receipting of cash or cheques outside of the secure area, and to transfer one of the reconciliations to finance. Some of the recommendations have already been implemented and should all be complete by February 2014.

- Customer contact (permit parking and controlled stationery) – limited assurance. Although permits and controlled stationery are held securely, controls over issuing were weak. A number of recommendations were agreed to strengthen procedures – some are complete, and all should be implemented by June 2014.

- Garden waste scheme (brown bins) – no assurance. This review was requested by the head of citywide services because of concerns related to procedures and

an apparent discrepancy between bins paid for to those emptied. Although there were some areas of good practice, there were control weaknesses across most areas. A number of recommendations were agreed by the head of citywide services, to be implemented in time for the main billing run in February 2014.

- Officers' subsistence and use of pool cars – as this was a transactions audit no assurance opinion was issued. All subsistence claims for 2012-13 were checked; no issues were found. Inconsistencies were found with some pool car mileage forms, but responsibility for monitoring these is unclear. A recommendation was agreed to consider options for addressing this risk, which is due to be implemented by March 2014.

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

Follow ups

6. The following audit was followed up:

- Emergency planning – due to staffing changes none of the recommendations were able to be fully implemented by the original deadline of September 2013. These mainly relate to the completion of some operational plans and training records, and improving connectivity on laptops used for emergency planning. However, good progress is being made to address all the issues since the appointment of the new emergency planning manager, and there is nothing outstanding which would prevent an effective response to an emergency.

Non-assurance work

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

- Refreshing the council's risk management strategy (approved by cabinet in December) and initiating a review of corporate risks.

- Ensuring continued progress on the national fraud initiative matches from January 2013, and preparing for the February 2014 data upload in relation to the single person discount data matching exercise.

Progress against the audit plan

8. Details of the annual audit plan for 2013-14 are at annex 1, showing progress for the year to date.

9. To the end of February 2014, 373 days has been spent on audit assurance work by Norwich-based staff, plus 20 days by other LGSS auditors. Norwich staff also spent 80 days on non-assurance work and unplanned request work.

10. When the audit plan was being drafted this time last year, the council had just heard that the joint bid with other partners for a greater Norwich City Deal had been successful. No details were available at the time, but it was felt prudent to include some time for this in the internal audit plan. Subsequently, Norfolk County Council was made the accountable body, which removed the risk for the council. Following

discussions with the deputy chief executive it was agreed that no internal audit review was necessary.

11. There were six days included in the plan for the Oracle upgrade/replacement project. As this project has been delayed time has been allowed for this in the 2014-15 audit plan (on today's agenda).

12. Two of the ICT audits have been slipped into next year's audit plan due to the LGSS computer auditor post being vacant.

13. The remaining uncompleted audits should all be scoped and started in the current year, with time allowed in next year's plan for completion.

Summary of fraud team work November 2013 to February 2014

14. A summary of work by the fraud team from November 2013 to either the end of January 2014 for monthly figures or February 2014 follows:

- Number of benefit cases referred to the fraud team – 213 (772 to 31 Jan)
- Number of referred benefit cases investigated – 121 (416 to 31 Jan)
- Number of benefit sanctions and prosecutions – 13 (34 to 26 Feb)
- As at the end of February, 7 cases were awaiting reassessment from fraud investigations and Benefits has a dedicated resource to deal with the backlog.
- At present there are 19 benefit cases outstanding from the national fraud initiative, of which 17 are being investigated as possible fraud cases and 2 are with the benefits section to carry out enquiries.
- One fraud awareness session was carried out for new benefits staff.

National fraud initiative (NFI) 2012-13

15. 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.

16. There are 74 reports, mainly covering benefits and housing, and a total of 2,677 matches, of which the Audit Commission recommended 560 as a priority for investigation.

17. The majority of matches relate to housing benefit. Staff in various service areas have made good progress in reviewing matches to identify any further action that needs to be taken – to date 84% of reports have been closed. The council's progress was rated as 'green' by the external auditors in their recent audit results report.

18. So far the exercise has uncovered one housing fraud which led to the recovery of a council property.

19. In addition, £44,792 of housing benefit overpayments has been identified - one overpayment of £1,353 which was due to fraud, and 27 cases totalling £43,439 which

were due to either council or customer error. All the overpayments are recoverable by reductions in weekly benefits.

LGSS Internal Audit - Audit Plan for Norwich City Council 2013-14

Audit Assurance Work	Estimated Days	2013-14 Actual to Wk 47 Norwich staff	Camb. staff	Total	Comments
Managed audits					
Purchasing & payments	25	1.2		1.2	In progress. To include review of purchase card use
Accounts receivable (debtors)	15			0.0	
NCC payroll	10	11.2		11.2	In progress
Housing rents/arrears	20	25.0		25.0	Complete
Housing benefits	25	10.0		10.0	In progress
Council tax	10	4.6		4.6	In progress
NNDR	10	2.4		2.4	In progress
Sub-total	**115**	**54.4**	**0**	**54.4**	
Corporate					
City Deal	20				Norfolk County Council is accountable body
Treasury & cashflow management	10	14.5		14.5	In progress
General ledger	10	8.0		8.0	Complete
CIL income / arrangements	10	12.0		12.0	Complete
Oracle upgrade/replacement	6				Upgrade/replacement will now be in 2014-15
Procurement & contract management arrangements, as follows:	60				
Cash receipting replacement project		15.9		15.9	Complete. Embedded audit presence on project team
New payroll contract		3.8		3.8	Complete. Embedded audit presence on project team
Procurement guide & toolkit		0.3		0.3	Complete
Construction industry tax scheme		6.9		6.9	Complete
Contract management in NPS		9.6		9.6	Complete
Outsourcing arrangements	30				Management of joint ventures / shared services
Budgetary control	20	13.0		13.0	Complete. Revenue and capital
Probity	10	10.1		10.1	Complete. Pool cars, fuel cards and travel & subsistence
Sub-total	**176**	**94.1**	**0**	**94.1**	
Business relationship management					
Asset management	20				Housing & non-housing
ICT audits:	10	3.8		3.8	
Parking Gateway	10				Slip to 14-15 due to computer auditor vacancy
Bacstel IP	10				Slip to 14-15 due to computer auditor vacancy
Remote / mobile computing	10				
GCSX / PSN compliance	10				
Sub-total	**70**	**3.8**	**0**	**3.8**	
Operations					
Emergency planning / resilience	10	10.1		10.1	Complete
HCA arrangements	10	11.0		11.0	Complete
HRA business plan & HIP	10				Risk also identified on p.22 of AGR for 2011-12
On-street parking / highways agency	15	0.2		0.2	Preparation
Safety of council properties	20	14.1		14.1	Complete
Sub-total	**65**	**35.4**	**0**	**35.4**	

Strategy, people & democracy					
Commissioning / partnerships	15	26.4		26.4	Draft report issued. Includes grants awarded under commissioning programme
Sub-total	**15**	**26.4**	**0**	**26.4**	
Customers, communications & culture					
Managing customer demand	10	9.4		9.4	In progress
The Halls	10	15.0		15.0	Complete
Norman Centre	10	11.6		11.6	Complete
Tourist Information Centre	10	11.3		11.3	Complete
Sub-total	**40**	**47.3**	**0**	**47.3**	
Non-specific					
Ad-hoc investigations	20	2.6		2.6	Contingency
To complete 2012-13 plan:	25				
Business support/customer contact teams		14.2		14.2	Complete
Anti-fraud measures		3.0		3.0	Complete
Accounts receivable		17.8		17.8	Complete
Accounts payable		3.4		3.4	Complete
Payroll		4.5		4.5	Complete
Treasury management		2.8		2.8	Complete
Housing rents		0.8		0.8	Complete
General ledger		10.3		10.3	Complete
Planning income		2.3	1.1	3.4	Complete
Business continuity management		2.1		2.1	Complete
Homelessness		0.5	2.9	3.4	Complete
Housing voids		1.4	5.8	7.2	Complete
Members allowances		2.9		2.9	Complete
Performance management		2.7		2.7	Complete
Information management					In progress
Transformation					
Register of electors					
ICT audits:					
Academy (housing)		9.3	3.6	12.9	Complete
Oracle (financial)		11.5	3.1	14.6	Complete
Disaster recovery		0.4	3.3	3.7	Complete

Follow-ups:	20				
Sports facilities		1.6		1.6	
Care & repair contract		1.0		1.0	
HCA		0.4		0.4	
Starters & leavers		0.3		0.3	
Contract management procedures		0.8		0.8	
Oracle purchasing		1.2		1.2	
Council tax		0.4		0.4	
NNDR		0.2		0.2	
Housing & council tax benefits		2.3		2.3	
Emergency planning		1.7		1.7	
Homeless		1.1		1.1	
Off-street parking		2.5		2.5	
Construction industry tax scheme		0.4		0.4	
Norman Centre		0.8		0.8	
Planning income		1.5		1.5	
Housing voids		1.2		1.2	
Others		2.2		2.2	
Sub-total	**65**	**112.1**	**19.8**	**131.9**	
Total for audit assurance work	**546**	**373.5**	**19.8**	**393.3**	
Consultancy & non-assurance work					
Corporate governance	15	20.4		20.4	Preparation of annual governance statement; corporate governance group
Fraud, incl. NFI work	34	20.4		20.4	Fraud survey. Key contact duties for NFI 2012 (matches) and 2013 (data upload)
Advice, other unplanned work requests	30	18.7		18.7	Contingency
Work request - review garden waste scheme		20.1		20.1	Complete
Total for non-assurance/consultancy work	**79**	**79.6**	**0**	**79.6**	
Total Allocated Days	**625**	**453.1**	**19.8**	**472.9**	
Indicative resources					
Regional audit & risk manager	20				
Principal client auditor	175				
Client auditors x 2	400				
LGSS support	30				
	625				