

## Report for Information

**Report to** Audit committee  
20 March 2012

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**Report of** Audit manager

**Subject** Internal Audit and Counter Fraud 2011-12 - Update

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### Purpose

To advise members of progress on the 2011-12 internal audit and counter fraud plans.

### Recommendations

That members note 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

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### Background Documents

Audit Committee 21 June 2011 – "Internal Audit and Counter Fraud Plans 2011-12"

# Report

## Background

1. The audit plan for 2011-12 was approved by members in June 2011.
2. This report covers the following areas:
  - audit assurance work during the period April 2011 to February 2012
  - 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 2011 to February 2012
  - progress on investigating matches from the Audit Commission's national fraud data matching initiative (NFI) 2010
  - information on NFI 2011 - council tax single person discounts
3. For each audit assurance 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 middle of February are as follows (excluding draft reports from PwC):
  - Payroll – outsourced - partial assurance
  - National non-domestic rates – moderate assurance
  - Oracle purchasing module – due to a planned extended period of leave by the auditor, an interim report was sent to the manager in order that a start could be made on addressing the significant issues found. At this stage no assurance rating has been given.
5. There are no significant issues to report from the reviews of payroll and NNDR.

## Follow ups

6. The following audits have been followed up and reported to management (satisfactory progress had been made on all of the main recommendations):
  - Budgetary control
  - Insurance arrangements
  - Tourist information centre
  - Cemeteries
  - Stray dog scheme

## **Progress against the audit plan**

7. Details of the annual audit plan for 2011-12 are shown at **Annex 1**, showing the planned and actual days for each area of audit assurance work, plus non-audit and consultancy work shown separately.
8. To the middle of February 2012, 176 days have been spent on audit assurance work (including audits from the previous plan), 104 days on non-assurance and consultancy work and 204 days on New Deal, a total of 484 days.
9. As reported at previous meetings, a number of audits are in progress, but two members of the audit team are still engaged in addressing queries from the Department of Communities and Local Government (CLG) following the completion of the New Deal scheme. It is likely that this work will continue to the end of March, at which point it is intended to meet with representatives from GLG to determine the exact requirements to finalise the work. The head of internal audit at LGSS has agreed a limited amount of time in next year's audit plan to allow for this work (see separate item on today's agenda).
10. Due to the unplanned increase in time taken on New Deal, Pricewaterhouse-Coopers (PwC) were contracted to carry out five assurance and three ICT audits as shown in annex 1. Draft reports have been issued for all these reviews, and all should be complete by the end of March.
11. Outstanding work on fundamental systems will be restricted to following up previous audits where applicable and key control testing.
12. In conjunction with the head of internal audit at LGSS it has been agreed to allow a limited amount of time in next year's plan to complete any audits already started by the end of April 2012.
13. Any other outstanding audits which are not yet started have been carried forward into the audit plan for 2012-13.

## **Summary of fraud team work**

14. A summary of work by the fraud team to the end of February 2012 follows:
  - Number of benefit cases referred to fraud team – 651 (789 as at Feb 2011)
  - Number of referred benefit cases investigated – 527 (621 as at Feb 2011)
  - Number of benefit sanctions and prosecutions - 98 (42 simple cautions, 19 admin penalties and 37 prosecutions). (102 as at Feb 2011.) The above should be seen in the context of over 19,000 claimants.
  - Number of social housing properties reclaimed as a result of investigations by the fraud team – four (four as at Feb 2011). The team was also involved in a case where a fraudulent application was made for housing – the person was removed from the register and given a simple caution
  - Investigating results from a pilot exercise on council tax single person discounts (SPD) – this resulted in four discounts being cancelled and re-billed
  - Investigating matches from national fraud initiative (see below).

## Progress against the counter fraud plan

15. Policies and procedures in housing are being strengthened to counter the risk of fraud, and the fraud team leader works closely with housing staff to raise awareness of fraud and deliver fraud training. Two properties have been recovered as a result of national fraud initiative (NFI) matches and four as a result of investigations by the fraud team.
16. The pilot exercise on SPD is complete – four discounts have been cancelled and re-billed with discount removed totalling £4,181, with an ongoing increase in bills of £1,605.
17. The fraud team has investigated 527 cases of possible benefit fraud which resulted in 98 sanctions and prosecutions (see above).
18. An internal audit of purchase cards resulted in a 'limited assurance' report, although no evidence of fraudulent use was identified. Management accepted all the recommendations, which will be followed up by audit in 2012-13.
19. A summary of progress against the counter fraud plan is shown at **Annex 2**.

## Progress against Audit Commission's national fraud initiative (NFI) 2010

20. The results from the 2010 NFI data matching exercise were received at the end of January 2011.
21. In total there were 3,336 matches spread over 66 reports covering benefits, housing tenancy and right to buy, payroll, insurance claims, transport passes (concessionary bus passes and permit parking), and creditors.
22. Staff in housing, internal audit, fraud, customer contact and accounts payable have almost completed reviewing the matches and the results are summarised in the following paragraphs.
23. Where a match is found it may indicate that there is an inconsistency in the data that requires further investigation. No assumption can be made as to whether there is fraud, error, etc until an investigation is carried out.
24. Five of the 66 reports remain open as at 8 March 2012, all of which relate to benefits (11 matches outstanding). All but two of the outstanding matches are being progressed by staff in fraud or benefits.
25. Therefore 3,325 matches have either been closed individually or globally as part of closing whole reports. This represents **99.7%** of the total matches.
26. An analysis of the results from investigating the matches follows:

<u>Report type</u>	<u>No. of frauds</u>	<u>No. of errors</u>	<u>Value £</u>
Benefits	2	12	24,554
Housing tenancy	1	56	0
Housing right to buy	0	1	0

<u>Report type</u>	<u>No. of frauds</u>	<u>No. of errors</u>	<u>Value £</u>
Parking permits	0	1	0
Concessionary passes	0	161	0
Creditors standing data	0	13	0
Creditors history	0	2	11,495
<b>Total</b>	<b>3</b>	<b>246</b>	<b>36,049</b>

27. Headline results from investigations to date are:

- One case of subletting a housing property identified, plus one of non-occupation – the properties were recovered.
- Benefits overpayments, either due to customer error (7) or official error (5), totalling £19,682, plus overpayments due to fraud of £4,872. This has resulted in a reduction of weekly benefit of £274 and recovery of £5,614 is in progress.
- A duplicate creditor payment of £2,085. This has been recovered.
- An overpayment of VAT of £9,410. This was corrected on the last VAT return.

28. Work is continuing to investigate the outstanding matches, and a final update will be presented to members once the exercise is complete.

29. For information, members who wish to see the Audit Commission's report on the national results from the 2008-09 data matching exercise, together with a members' briefing, can view these on the NFI website at <http://www.audit-commission.gov.uk/fraud/nfi/reports/pages/default.aspx>.

### **National fraud initiative 2011**

30. The Audit Commission runs the main NFI exercise every two years (2010, 2012, etc.), but in the intervening years it carries out data matching aimed at identifying possible fraud or error in relation to council tax single person discounts.

31. The results of the matching exercise were released in February 2012 – approximately 1600 matches will require investigation, although it should be emphasised that there is no assumption of fraud just because there is a match.

32. The council is currently exploring options on how to resource the investigation of individual matches.

<b>Internal Audit Plan 2011-12</b>				
	<b>2011-12</b>			
<b>Audit Assurance Work</b>	<b>Indicative Days</b>	<b>Actual to Wk 47</b>	<b>Priority</b>	<b>Comments</b>
<b>Fundamental systems</b>				
Accounts payable (creditors)	15		H	Outsourced - draft report issued
Accounts receivable (debtors)	10		H	Follow up and key control testing
Payroll	10		H	Outsourced - final report issued. Follow up
Housing rents/arrears	20	15.4	H	In progress but delayed due to work on New Deal
Income/cash receipting	10		H	Key control testing
Treasury & cashflow management	10		H	Key control testing
Housing & council tax benefits	15		H	Follow up and key control testing
Council tax/NNDR	20	8.1	H	NNDR - final report issued. C tax outsourced - draft report issued
Asset management	20	29.1	H	Ordering procedures complete; regalia in progress
<b>Sub-total</b>	<b>130</b>	<b>52.6</b>		
<b>Corporate resources</b>				
Grant claim certification	15		H	Slip to 2012-13 plan
Data protection/freedom of information	15	0.5	H	Slip to 2012-13 plan
Procurement	20		H	Outsourced - draft report issued
<b>Sub-total</b>	<b>50</b>	<b>0.5</b>		
<b>Regeneration &amp; development</b>				
Investment portfolio - rents, voids, etc.	15	26.3	H	In progress
Highways agency	15		H	Outsourced - draft report issued
NCAS & CCTV	5	2.3	M	NCAS in progress. CCTV independently reviewed - audit to review report for assurance
Car parks income	10		H	Slip to 2012-13 plan
Provision market	10	8.5	H	In progress
Leasehold services	15		H	Outsourced - draft report issued
<b>Sub-total</b>	<b>70</b>	<b>37.1</b>		
<b>Strategy &amp; programme management</b>				
Energy efficiency	15	0.3	H	Slip to 2012-13 plan
<b>Sub-total</b>	<b>15</b>	<b>0.3</b>		Sub-total not included in original plan - now corrected
<b>Communications and culture</b>				
Tourism, sports and events	10		M	Slip to 2012-13 plan
<b>Sub-total</b>	<b>10</b>	<b>0</b>		

<b>Audit Assurance Work (cont.)</b>	<b>Indicative Days</b>	<b>Actual to Wk 47</b>	<b>Priority</b>	<b>Comments</b>
<b>Corporate reviews</b>				
Commissioning and grants payable	15	1.2	H	Includes final LEGI certification
Ad-hoc investigations	20	0.7	M	No major investigations to date
Probity	25	16.5	H	Accounts payable; member/officer expenses
Outsourced IT audits:	15	10.3	H	Client function plus work on PCI compliance
Northgate (revenues & benefits)				Outsourced - draft report received
Civica (customer contact)				Outsourced - draft report received
PARIS (cash receipting)				Outsourced - draft report received
<b>Sub-total</b>	<b>60</b>	<b>28.7</b>		
<b>To complete 2010-11 plan:</b>				
HR - recruitment/leavers	0	8.3		In progress but delayed due to work on New Deal
Performance management system	10		H	Slip to 2012-13 plan
Mtce. of housing stock/care & repair	15	6.6	H	In progress but delayed due to work on New Deal
Major contracts & Leisure Centre	15	0.7	H	In progress but delayed due to work on New Deal
General ledger	10	13.6	H	Interim report on Oracle Purchasing issued
Private sector leasing	10	0.1	H	In progress but delayed due to work on New Deal
Choice based letting	10	12.5	M	In progress but delayed due to work on New Deal
<b>Sub-total</b>	<b>70</b>	<b>41.8</b>		
<b>Follow-ups and post-audit work</b>	20		H	
Budgetary control		0.2		Satisfactory progress on action plan
Insurance arrangements		0.9		Satisfactory progress on action plan
Tourist Information Centre		1.1		Satisfactory progress on action plan
Cemeteries		2.1		Satisfactory progress on action plan
Stray dog scheme		1.4		Satisfactory progress on action plan
Purchase cards		6.3		Includes additional testing and audit review of updated procedures
General		2.9		Post audit work not requiring reports
<b>Sub-total</b>	<b>20</b>	<b>14.9</b>		
<b>Total for audit assurance work</b>	<b>425</b>	<b>175.9</b>		

	Indicative Days	Actual to Wk 47		Comments
<b><u>Non-audit &amp; consultancy work</u></b>				
New Deal - grant claims	50	204.2		Post-scheme involvement of audit staff
Corporate governance	30	28.3		Financial regulations; AGS
Fraud plan, incl. NFI	30	28.0		Fraud plan & matches from NFI 2010
Risk management	15	12.0		Corporate risk register; risk strategy
Financial appraisals/tenders/final a/cs	5	7.0		Housing repairs & maintenance contract
Advice, unplanned work, requests	30	28.9		
<b>Total for non-audit/consultancy work</b>	<b>160</b>	<b>308.4</b>		
<b>Total Allocated Days</b>	<b>585</b>	<b>484.3</b>		



## Internal Audit Counter Fraud Plan 2011-12

Area	Comments	Resourcing	Position as at February 2012
Housing – unlawful subletting	<p>Highlighted as a risk in 'Protecting the Public Purse'. This risk is the subject of an ongoing national initiative – the council received a grant for participating.</p> <p>We also received potential matches from the national fraud initiative (NFI) 2010 data matching results, and these have all been investigated.</p>	Fraud team in conjunction with housing staff	A new housing fraud policy has been implemented; procedures are being strengthened; fraud awareness training delivered to neighbourhood housing officers. Two properties have been recovered as a result of NFI and four as a result of investigations by the fraud team.
Council tax – single person discounts	<p>Highlighted as a risk in 'Protecting the Public Purse'.</p> <p>We have received potential matches from NFI 2011 results, and these will be investigated.</p>	Fraud team and council tax staff.	Pilot SPD data matching exercise – four discounts cancelled and re-billed. NFI results received in Feb 2012. Resource options for investigating matches currently being explored.
Recruitment	<p>Highlighted as a risk in 'Protecting the Public Purse'. Included in internal audit plan for 2010-11.</p>	Internal audit	<p>Audit started, but delayed due to work on NELM.</p> <p>This is not considered to be a high risk at present due to limited external recruitment</p>
Housing and council tax benefit	<p>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.</p> <p>We also received potential matches from NFI 2010 results, and these have nearly all been investigated.</p>	Fraud team	A summary of investigations and outcomes, including from NFI, is included in the covering report.
Procurement	<p>Highlighted as a risk in 'Protecting the Public Purse'. Included in internal audit plan for 2011-12.</p>	Outsourced	Audit outsourced – draft report issued.

Area	Comments	Resourcing	Position as at February 2012
Insurance claims	Highlighted as a risk in 'Protecting the Public Purse'. Our insurance arrangements were audited in 2009-10 and were given adequate assurance. We also received potential matches from NFI 2010 results, and these were all investigated.	Internal audit	The recommendations were followed up in June 2011 and showed satisfactory progress. No evidence of fraud found from NFI matches.
Purchase cards	Potential for over £1m. spend annually, with further roll out possible.	Internal audit	Audit report issued in June 2011 which gave limited assurance, although no evidence of fraud identified. Recommendations accepted by management and will be followed up in 2012-13.
Private sector leasing – payments to landlords	Large number of landlords paid on a regular basis, many of whom are individuals.	Internal audit	Audit started, but delayed due to work on NELM