

Report for Information

Report to Audit Committee
23 November 2010
Report of Audit Manager
Subject Internal Audit 2010/11 - Update

6

Purpose

To advise members of progress on the 2010/11 audit plan.

Recommendations

That members note the report.

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 October 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 October 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 up to the end of October are as follows:
 - Right to buy – draft report issued – 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
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 - opinion amended from moderate to good
 - Parking services operations - opinion amended from limited to moderate
 - Housing benefit – opinion remains as limited

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 October 2010, 193 days has been spent on audit assurance work (including audits from the previous plan), 87 days on non-audit and consultancy work and 39 days on New Deal, a total of 319 days.
10. It is estimated that a further 306 days are required to complete the plan. As the available resources to the end of the year are estimated at 237 days, this gives an estimated shortfall of 70 days.
11. As with previous years, there is a budget available to allow outsourcing of some audits, and this is currently being explored. 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 - 509
- Number of benefit investigations - 445
- Number of benefit sanctions and prosecutions - 67 (30 simple cautions, 17 admin penalties and 20 prosecutions)
- Investigation into council tax single person discount - 1 simple caution
- Number of calls to housing hotline to report possible subletting - 12
- 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 500 accounts, which equates to additional revenue of approximately £191k.

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 22 properties have been added to our records, which equates to additional revenue of around £55k.
17. A summary of progress against the counter fraud plan is shown at **Annex 3**.

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

Annex 1

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>	<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</p>	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			

Internal Audit Plan 2010/11						
Audit Assurance Work	2010/11					
	Estimated Days	Actual to Wk 31	Estimated time to complete	Previous Years	Priority	Comments
Fundamental Systems						
Purchasing & payments	15		15		H	
Debtors/recovery	15		15		H	
Payroll	15	0.1	10		H	
Housing rents	15		10		H	
Income/cash receipting	15	10.0	5		H	In progress
Treasury & cashflow management	15		5		H	
Housing/c tax benefits, incl. fraud team	15		15		H	
Council tax/NDR	15		15		H	
Asset management - non-housing	10	5.5	10		H	In progress re regalia & civic portraits
Sub-total	130	15.6	100			
Corporate Resources						
Customer contact	20	0.0	20		H	
General ledger	10	0.0	10		H	
Licensing	15	14.8	3		H	In progress
HR - recruitment	15	0.0	10		H	
Procurement and purchase cards	15	4.8	10		H	Purchase cards in progress
Sub-total	75	19.6	53			
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	1.7	13		H	In progress
Homes & Communities Agency contract	10	1.5	4		H	In progress
Neighbourhood teams	10	0.0	10		H	
Care & repair	10	0.0	0		M	Slip to 2011/12
Choice based lettings	10	0.0	10		H	
Sports facilities	5	0.4	0		M	Slip to 2011/12
Sub-total	80	3.6	57			
Cultural Services						
Leisure Centre	5	0.0	0		M	Slip to 2011/12
Sub-total	5	0	0			

	Estimated Days	Actual to Wk 31	Estimated time to complete	Previous Years	Priority	Comments
Corporate						
Ad-hoc investigations	20	16.8	3		M	
Probity	10	12.4	3		H	
Perf. mgt. system/national indicators	10	0.0	5		H	National indicators dropped
Business continuity/emergency mgt.	10	0.0	0		H	Outsource arranged - end November
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	4.5	5		H	IT risk assessment outsourced
Sub-total	90	39.6	30			
To complete 2009/10 plan:						
AR & AP	10	18.7	0	7.5	H	Draft reports issued
Community alarm service	0	6.2	2	0.0	H	Now in-house - in progress
Right to buy	10	25.0	0	0.0	H	Draft report issued
HR - leavers	10	0.0	10	0.9	H	
Land searches	10	9.0	1	1.0	H	In progress
Cemetery	5	15.2	0	5.6	H	Complete - limited assurance
The Halls	5	12.2	0	15.3	H	Complete - moderate assurance
Treasury management	0	3.9	0	32.4	H	Complete - moderate assurance
Norman Centre	5	9.7	0	13.2	H	Complete - moderate assurance
Sub-total	55	99.9	13			
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
Housing benefit		0.0				Remains as limited assurance
General		3.3				Post-audit work not requiring reports
Sub-total	15	14.6	0			
Total for audit assurance work	450	192.9	253			

	Estimated Days	Actual to Wk 31	Estimated time to complete	Previous Years	Priority	Comments
<u>Non-audit & consultancy work</u>						
New Deal - grant claims	30	38.6	15		H	2009/10 claim & asset register o/s
Corporate governance	30	13.6	15		H	Use of resources to continue; AGS
Fraud plan, incl. NFI	40	28.7	10		H	NFI 2010 data uploaded
Risk management	10	11.6	3		H	Setting up corporate risks on Aspireview
Financial appraisals/tenders/final a/cs	10	6.9	3		L	Involvement with contract relets
Advice, unplanned work, requests	35	26.2	7		M	Incl. transformation work
Total for non-audit/consultancy work	155	125.6	53			
Total audit and non-audit work	605	318.5	306			
<u>Audit Resources Available 2009/10:</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 October 2010:</u>						
Planned chargeable days			555			
Planned days used			319			
Planned days remaining			237			
Required days to complete plan			306			
Current projected shortfall			-70			

Internal Audit Counter Fraud Plan 2010/11

Area	Reasons for inclusion in plan	Resourcing	Position as at October 2010
Housing – unlawful subletting	Highlighted as a risk in 'Protecting the Public Purse'. This risk is the subject of a national initiative – the council received a grant for participating. Pilot data matching carried out in 2009/10, which resulted in data matching being extended in 2010/11. We also receive potential matches from NFI results, and these will be investigated.	Fraud team solely for some investigations, and in conjunction with housing staff for others	Investigations by the fraud team have resulted in four council properties being recovered. The team also assisted housing staff to recover two more properties
Council tax – single person discounts (SPD)	Highlighted as a risk in 'Protecting the Public Purse'. We also receive many potential matches from NFI results, and these will be investigated.	Council tax staff. Extra assistance with the resourcing of investigations will be explored. Some cases referred to the fraud team	Extra assistance obtained to investigate matches from the NFI 2009 exercise. This resulted in SPD being cancelled for approx. 500 accounts. For the first time, the council administered a caution to a resident for the offence of falsely claiming SPD
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 22 properties across various bands have been added to council tax records, total additional revenue of £55k
Recruitment	Highlighted as a risk in 'Protecting the Public Purse'. Included in draft internal audit plan for 2010/11.	Internal audit	Audit not yet started
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	A summary of investigations and outcomes is included in the covering report NFI matches should be received in Jan 2011
Procurement	Highlighted as a risk in 'Protecting the Public Purse'. Included in draft internal audit plan for 2010/11.	Internal audit	Audit not yet started
Purchase cards	Potential for over £1m. spend annually, with further roll out possible	Internal audit	Audit in progress. No fraudulent activity identified to date

Annex 3

Area	Reasons for inclusion in plan	Resourcing	Position as at October 2010
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 may receive potential matches from the NFI 2010 exercise, and these will be investigated.	Internal audit	Report not yet followed up. Any NFI matches should be received in Jan 2011
Private sector leasing – payments to landlords	Large number of landlords paid on a regular basis, many of whom are individuals	Internal audit	Audit not yet started