

Report to Audit committee
17 March 2015

Report of Head of internal audit and risk management, LGSS

Subject Internal audit and fraud team 2014-15 – January to February update

Item

6

Purpose

To advise members of the work of internal audit between January and February 2015 and progress against the 2014-15 internal audit plan, together with the work of the fraud team between April 2014 and February 2015.

Recommendations

To note:

- (1) the work of internal audit between January and February 2015;
- (2) the progress on the 2014-15 internal audit plan;
- (3) the work of the fraud team between April 2014 and February 2015;
- (4) the latest position on the national fraud initiative (NFI);
- (5) the latest counter fraud developments;

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 January to February 2015, plus other areas of non-assurance work
 - matters arising from previous meeting
 - the audit plan 2014-15, showing progress against planned audits
 - summary of fraud team work April 2014 to February 2015
 - the latest position on the national fraud initiative (NFI)
 - the latest counter fraud developments
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 January to February 2015

4. The following areas were reported on between January and February:
 - Parking Gateway IT system – moderate assurance. The Parking Gateway system is used to record, administer and progress all Penalty Charge Notices (PCNs) issued as part of the authority's on-and off-street enforcement activities. There was assurance across most of the areas including system administration procedures; input, output and system interface controls; and backup and disaster recovery.

However, documentary evidence for system upgrades is not being maintained, plus no evidence of staff procedure manuals being updated with new information after system upgrades or staff being informed of changes made to system; 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.

Five recommendations were agreed which are due to be implemented by the end of April 2015.
 - Accounts payable – substantial assurance. There was assurance over segregation of duties at each stage of the BACS and cheque payment processes; authorisations; monthly reconciliations; storage and movement of blank cheques; and the processes when dealing with requests to change supplier details, although these are not subject to management review.

However, a review of user access to the system is overdue; clarification of BACS limits is required; there are inconsistencies between procedures for cheque and BACS payments; and some members of staff can both raise and pay invoices.

Eight recommendations were agreed which are due to be implemented by the end of April 2015.

- Civica IT system – moderate assurance. Civica is the corporate document management and workflow system used by two thirds of council employees and it indirectly interfaces with other council application systems. There was assurance across most of the areas including input, processing and output controls; system interface controls; and backup and disaster recovery.

However, there are no operational guidance notes for some of the modules; a possible upgrade had not been implemented; procedure manuals out of date; several major incidents logged. Management were already aware of the issues, and the system is in the process of being upgraded.

Six recommendations were agreed, some of which are complete, while others are dependent on the system upgrade in March 2015.

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:

- Preparing for a review of the council's corporate risk register.
- Co-ordinating the investigation of matches from the NFI 2014-15 data matching exercise.

Matters arising from previous meeting

7. The two actions from the audit of the Workforce IT system, due by December 2014, are complete.
8. The five actions from the audit of street trading income, due by the end of December 2014, are complete.
9. Norfolk Audit Services have just started an audit of the Highways Agency Agreement. The scope of the review covers assurance over objectives and targets; contract management and monitoring; management and monitoring of financial and service performance; and governance and quality assurance arrangements.
10. Contract management in citywide services was previously reviewed in 2012, which resulted in an unsatisfactory assurance opinion. Ten recommendations were agreed, which had all been implemented by the time of the follow-up review in 2013.
11. LGSS IT has procured the missing Oracle licences and has also set up the ongoing support and maintenance associated with them. These now form part of the annual charges from Oracle for the entire Norwich financial system.
12. The scope of the joint ventures/shared services audit covers governance, performance and value for money arrangements for LGSS; nplaw; NPS Norwich; Norwich Norse (Environmental); and Norse Environmental Waste Service. The audit is substantially complete and the report is currently being drafted.

Progress against the audit plan

13. As reported to your last meeting, 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.
14. In addition, due to changed circumstances relating to some planned audits, members approved some amendments to the plan, with some audits being deleted or reduced in scope and replaced by new reviews.
15. It was reported that, subject to members' approval of the proposed changes, a revised forecast of the audit plan would be agreed with the chief finance officer.
16. Details of the revised audit plan for 2014-15 are shown at **appendix 1**. This shows a revised plan requirement of 545 days, against which it is estimated that 526 days will be delivered using resources from the wider LGSS internal audit team.
17. To the end of February 2015, 348 days has been spent on audit assurance work. This includes work on audits started at the end of 2013-14 but not completed. 75 days were also spent on non-assurance work and unplanned request work.

Summary of fraud team work April 2014 to February 2015

18. 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 – 591 (835)
 - Number of referred benefit cases investigated – 354 (471)
 - Number of benefit sanctions and prosecutions – 79 (30)
19. As at the end of February the fraud team had identified benefit overpayments in excess of £488,000. 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 has paid for itself in subsidy returns alone (£195,000).
20. By the end of February the fraud team had completed 79 sanctions and prosecutions (the total for the whole of 2013-14 was 40).

National fraud initiative (NFI)

21. There is now only one case outstanding from 2012-13, which is currently with nplaw to consider a prosecution.
22. For the 2014-15 exercise, 2,306 matches for possible investigation were released at the end of January, and work is in progress to prioritise the investigation of these. Some reports (14% of the total) have been closed with no fraud being detected.

Latest counter fraud developments

Counter fraud fund and single fraud investigation service (SFIS)

23. The posts from the DCLG counter-fraud fund have been graded and will be advertised shortly. LGSS audit/fraud have a meeting with the council's business relationship manager on 16 March to discuss counter fraud work at Norwich.
24. From 2 March there is a new fraud reporting page on the council website, which routes benefit fraud referrals directly to the DWP, and other frauds to relevant service leads within the council.
25. Members of the LGSS fraud team at Norwich have been given posting notices with their grades and locations for their transfer to the DWP on 1 April. Any live benefit fraud cases at close of business on 26 March will be transferred to the DWP for continuation of investigation. Any files at nplaw will remain there until their conclusion.
26. The benefits service has created a secure email address for the exchange of information with the DWP SFIS, with two admin officers and two benefits assessment officers tasked with maintaining the workflow.
27. The council is currently exploring whether to retain membership of the National Anti-Fraud Network (NAFN), which offers search fees for investigation and enforcement at preferential rates. This has been mainly used by the LGSS fraud team historically.

LGSS Internal Audit - Revised Internal Audit Plan for Norwich City Council 2014-15			
Audit Assurance Work	Projected days	Actual to Wk 48	Comments/latest position
Fundamental systems			
Purchasing	26	26.0	Complete
Accounts receivable (debtors)	25	24.6	In progress
NCC payroll	10	7.0	In progress
Housing rents/arrears	10	10.6	In progress
Housing & council tax benefits	10		
Council tax	5	0.1	
NNDR	5		
Sub-total	91	68.3	
Income generation	20	4.0	In progress
Joint ventures	20	23.9	In progress
Procurement & contract management arrangements:			Allowance for possible input to tendering, monitoring, procedural compliance. Involvement in specific contracts. Plus presence on project teams
New bank contract	20	20.3	Audit presence on project team
NPS	20	3.5	Preparation
Parking permits	1	0.8	
Probity	16	3.9	Income from street trading complete
Sub-total	97	56.4	
Business relationship management			
Council tax & NNDR systems	15		VFM review - impact of scheme changes on collection costs
ICT audits:	75	71.4	Incl. embedded assurance - Corporate Information Assurance Group; input to IT audits
Civica			Complete
Northgate			Draft report issued
Workforce			Complete
Parking Gateway			Complete
Bacstel IP			Complete
Sub-total	90	71.4	
Operations			
CIL income	10	6.5	In progress
Provision market	13	11.8	Complete
Licensing	10	2.9	In progress
Leasehold services	15		Q4
Cemeteries	15	3.6	In progress
Home improvements	15	17.7	In progress
Parking income	15	18.6	In progress
Sub-total	93	61.1	

