

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

**Item**

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## **Purpose**

To advise members of the work of internal audit between February and the end of March 2014 and progress against the 2013-14 internal audit plan, together with a summary of the work of the fraud team in 2013-14.

## **Recommendations**

To note the:

- (1) work of internal audit between February and the end of March 2014;
- (2) progress against the internal audit plan;
- (3) work of the fraud team in 2013-14
- (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

## **Contact officers**

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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 February to end of March 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 in 2013-14
  - 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 February to March 2014

4. The following areas were reported on in the five weeks to the end of March 2014:
  - Treasury management – substantial assurance. There are good arrangements in place for cash flow management, CHAPS payments, bank account reconciliations, monitoring receipt of income due from investments, and recording transactions in the ledger. A few minor recommendations were agreed for implementation by October 2014, mainly relating to updating management practices from the CIPFA Code of Practice and the council's treasury management strategy.
  - Garden waste – this was a special investigation into transactions in sundry income relating to the garden waste (brown bin) scheme. Income for 2014-15 had been erroneously applied to historic debts without the approval of the garden waste team or the authorisation of the exchequer team leader. Details of the actions necessary to return the accounts to their correct state were included in a report and have now been completed.
5. Other assurance work which is in progress is shown in **annex 1**.

## Follow ups

6. The following audits were followed up:
  - Housing voids – with one minor exception relating to an out of date link on the home options website, all the recommendations are substantially complete.
  - The Halls – most of the recommendations were substantially complete. The issue of reconciling income from the booking records through to that shown on the general ledger is still in progress; the Halls manager is working with finance to complete the necessary actions.

- Norman Centre – most of the agreed actions had not been implemented. The auditor worked with the manager to agree revised actions and deadlines, which were detailed in a follow up report issued to the leisure and sports development officer.
- Oracle financial IT system - most of the recommendations are substantially complete or revised completion dates have been agreed, with two outstanding items. First, with regard to licensing, two of the modules used by LGSS IT need attention. This is currently being pursued with Oracle following receipt of their report in November 2013. Second, the issue of audit trails needs more consideration and is currently being investigated.
- Academy housing IT system - most of the recommendations are substantially complete or revised completion dates have been agreed. The main outstanding item is the review of user access and profiles, which was delayed due to the urgent upgrades at the end of last year – expected completion is now end May.

## **Non-assurance work**

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

- Initiating a review of corporate risks by senior managers and reporting the updated corporate risk register to cabinet in March (see also today's agenda).
- Ensuring continued progress on the national fraud initiative matches from January 2013, and completing the February 2014 data upload in relation to the single person discount data matching exercise. The results have been passed to LGSS Revenues and Benefits for them to investigate.

## **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. Further details can be found in the head of internal audit's annual report on today's agenda.
9. To the end of March 2014, 425 days has been spent on planned audit assurance work by Norwich-based staff, plus 20 days by other LGSS auditors. Norwich staff also spent 86 days on non-assurance work and unplanned request work, including a detailed review of the garden waste scheme.
10. When the audit plan was being drafted 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 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 plan.
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. Because of a delay in the planned restructure of internal audit the actual resources available for the audit plan were less than estimated, primarily due to work on risk management and audit committee work. Time has been allowed in the 2014-15 plan for the remaining uncompleted audits.

## **Summary of fraud team work 2013-14**

14. A summary of work by the fraud team for 2013-14 follows (figures in brackets are for the 2012-13 comparator):
- Number of benefit cases referred to the fraud team – 898 (641). In context, there are approximately 18,000 claiming benefit from Norwich City Council so the number of concerns about fraud is relatively low.
  - Number of referred benefit cases investigated – 511 (480)
  - Number of benefit sanctions and prosecutions – 40 (55), of which 23 were NCC-led. One of the main reasons for the decrease was a reduction in benefit support until quarter four and so a number of cases were held in a backlog. The benefit needs to be reassessed and, where appropriate, recalculated before the final decision can be made on further action.
  - The total overpaid benefit identified through fraud team activity was £249,151 (£266,204 in 12/13), of which £163,291 was from the 40 sanction and prosecution cases.
  - In addition to the above the team administered one simple caution for a council tax single person discount offence (one in 12/13) and was directly responsible for the recovery of two council dwellings as a result of investigation (seven in 12/13).

## **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.
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 91% of reports have been closed. The council's progress was rated as 'green' by the external auditors in their last 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, £135,370 of housing benefit overpayments has been identified. Six cases totalling £24,556 were due to fraud, resulting in one prosecution, three administrative penalties and two official cautions. 45 cases totalling £110,814 were due to either official error (19) or customer error (26). All the overpayments are recoverable by reductions in weekly benefits.
20. Finally, a duplicate creditor payment of £2993 from 2010 was identified. Following investigations by council staff and the supplier a full refund was received.

| LGSS Internal Audit - Audit Plan for Norwich City Council 2013-14 |                |                 |   |
|---|----------------|-----------------|---|
|   |                |                 |   |
|   | 2013-14        |                 |   |
|   |                |                 |   |
| Audit Assurance Work  | Estimated Days | Actual to Wk 52 | Comments/latest position  |
| <b>Managed audits</b>   |                |                 |   |
| Purchasing & payments   | 25             | 3.1             | Purchase cards complete. Purchasing in progress                       |
| Accounts receivable (debtors)                                     | 15             |                 | Awaiting response to report   |
| NCC payroll   | 10             | 14.0            | Draft report issued   |
| Housing rents/arrears   | 20             | 25.0            | Complete  |
| Housing benefits  | 25             | 21.4            | Draft report issued   |
| Council tax   | 10             | 6.6             | In progress   |
| NNDR  | 10             | 5.1             | In progress   |
| <b>Sub-total</b>  | <b>115</b>     | <b>75.2</b>     |   |
| <b>Corporate</b>  |                |                 |   |
| City Deal   | 20             |                 | Not reviewed - Norfolk County Council is accountable body             |
| Treasury & cashflow management                                    | 10             | 15.0            | Complete  |
| General ledger  | 10             | 8.0             | Complete  |
| CIL income / arrangements   | 10             | 12.0            | Complete  |
| Oracle upgrade/replacement  | 6              |                 | Upgrade/replacement delayed to 2014-15                                |
| Procurement & contract management arrangements, as follows:       | 60             |                 |   |
| Cash receipting replacement project                               |                | 16.0            | Complete. Embedded audit presence on project team                     |
| New payroll contract  |                | 3.8             | Complete. Embedded audit presence on project team                     |
| Procurement guide & toolkit                                       |                | 0.3             | Complete  |
| Construction industry tax scheme                                  |                | 6.9             | Complete  |
| Contract management in NPS  |                | 9.6             | Complete  |
| Outsourcing arrangements  | 30             |                 | Management of joint ventures / shared services                        |
| Budgetary control   | 20             | 13.0            | Complete.   |
| Probity   | 10             | 10.1            | Complete. Pool cars, fuel cards and travel & subsistence              |
| <b>Sub-total</b>  | <b>176</b>     | <b>94.7</b>     |   |
| <b>Business relationship management</b>                           |                |                 |   |
| Asset management  | 20             |                 | Housing & non-housing   |
| ICT audits:   | 10             | 8.3             | Embedded assurance: presence on corporate information assurance group |
| Parking Gateway   | 10             |                 | Slip to 2014-15 due to computer auditor vacancy                       |
| Bacstel IP  | 10             |                 | Slip to 2014-15 due to computer auditor vacancy                       |
| Remote / mobile computing   | 10             |                 | )   |
| GCSX / PSN compliance   | 10             |                 | ) Embedded assurance - PSN & PCI compliance achieved                  |
| <b>Sub-total</b>  | <b>70</b>      | <b>8.3</b>      |   |
| <b>Operations</b>   |                |                 |   |
| Emergency planning / resilience                                   | 10             | 10.1            | Complete  |
| HCA arrangements  | 10             | 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             | Preparation   |
| Safety of council properties                                      | 20             | 14.1            | Complete  |
| <b>Sub-total</b>  | <b>65</b>      | <b>35.4</b>     |   |

|  |           |             |  |
|--|-----------|-------------|--|
|  |           |             |  |
| <b>Strategy, people &amp; democracy</b>        |           |             |  |
| Commissioning / partnerships                   | 15        | 26.4        | Draft report issued. Includes grants awarded under commissioning programme |
| <b>Sub-total</b>                               | <b>15</b> | <b>26.4</b> |  |
|  |           |             |  |
| <b>Customers, communications &amp; culture</b> |           |             |  |
| Managing customer demand                       | 10        | 12.2        | Complete   |
| The Halls                                      | 10        | 15.0        | Complete   |
| Norman Centre                                  | 10        | 12.0        | Complete   |
| Tourist Information Centre                     | 10        | 11.3        | Complete   |
| <b>Sub-total</b>                               | <b>40</b> | <b>50.5</b> |  |
|  |           |             |  |
| <b>Non-specific</b>                            |           |             |  |
| Ad-hoc investigations                          | 20        | 13.5        | Contingency  |
|  |           |             |  |
| To complete 2012-13 plan:                      | 25        |             |  |
| Business support/customer contact teams        |           | 14.2        | Complete   |
| Anti-fraud measures                            |           | 3.0         | Complete   |
| Accounts receivable                            |           | 17.8        | Complete   |
| Accounts payable                               |           | 3.4         | Complete   |
| Payroll  |           | 4.5         | Complete   |
| Treasury management                            |           | 2.8         | Complete   |
| Housing rents                                  |           | 0.8         | Complete   |
| General ledger                                 |           | 10.3        | Complete   |
| Planning income                                |           | 3.4         | Complete   |
| Business continuity management                 |           | 2.1         | Complete   |
| Homelessness                                   |           | 3.4         | Complete   |
| Housing voids                                  |           | 7.2         | Complete   |
| Members allowances                             |           | 2.9         | Complete   |
| Performance management                         |           | 2.7         | Complete   |
| ICT audits:                                    |           |             |  |
| Academy (housing)                              |           | 12.9        | Complete   |
| Oracle (financial)                             |           | 14.6        | Complete   |
| Disaster recovery                              |           | 3.7         | Complete   |
|  |           |             |  |

|   |            |               |   |
|---|------------|---------------|---|
| Follow-ups:                                     | 20         |               |   |
| Sports facilities                               |            | 1.6           |   |
| Care & repair contract                          |            | 1.0           |   |
| HCA   |            | 0.4           |   |
| Starters & leavers                              |            | 0.3           |   |
| Contract management procedures                  |            | 0.8           |   |
| Oracle purchasing                               |            | 1.2           |   |
| Council tax & NNDR                              |            | 0.6           |   |
| Housing & council tax benefits                  |            | 2.3           |   |
| Emergency planning                              |            | 1.7           |   |
| Homeless  |            | 1.1           |   |
| Off-street parking                              |            | 2.5           |   |
| Construction industry tax scheme                |            | 0.4           |   |
| Norman Centre                                   |            | 3.2           |   |
| The Halls                                       |            | 3.6           |   |
| Planning income                                 |            | 5.3           |   |
| Housing voids                                   |            | 2.8           |   |
| Others  |            | 2.7           |   |
| <b>Sub-total</b>                                | <b>65</b>  | <b>154.7</b>  |   |
|   |            |               |   |
|   |            |               |   |
| <b>Total for audit assurance work</b>           | <b>546</b> | <b>445.2</b>  |   |
|   |            |               |   |
|   |            |               |   |
| <b>Consultancy &amp; non-assurance work</b>     |            |               |   |
| Corporate governance                            | 15         | 21.6          | Preparation of annual governance statement; corporate governance group            |
| Fraud, incl. NFI work                           | 34         | 23.0          | Fraud survey. Key contact duties for NFI 2012 (matches) and 2013/14 (data upload) |
| Advice; other unplanned work requests           | 30         | 21.5          | Contingency   |
| Work request - review garden waste scheme       |            | 20.1          | Complete  |
| <b>Total for non-assurance/consultancy work</b> | <b>79</b>  | <b>86.2</b>   |   |
|   |            |               |   |
|   |            |               |   |
| <b>Total Allocated Days</b>                     | <b>625</b> | <b>531.4</b>  |   |
|   |            |               |   |
|   |            |               |   |
| <b>Original indicative resources</b>            |            | <b>Actual</b> |   |
| Regional audit & risk manager                   | 20         | 0             |   |
| Principal client auditor                        | 175        | 120           |   |
| Client auditors x 2                             | 400        | 391           |   |
| LGSS support                                    | 30         | 20            |   |
|   | <b>625</b> | <b>531</b>    |   |
|   |            |               |   |
|   |            |               |   |
|   |            |               |   |