

<b>Report to</b>	Audit committee 23 July 2013	<b>Item</b>
<b>Report of</b>	Head of internal audit and risk management, LGSS	<b>8</b>
<b>Subject</b>	Internal audit and fraud team 2012-13 – 4th quarter update	

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## **Purpose**

To advise members of the work of internal audit between February and the end of March 2013 and progress against the 2012-13 internal audit plan, together with a summary of the work of the fraud team in 2012-13.

## **Recommendations**

To note the:

- (1) work of internal audit between February and the end of March 2013;
- (2) progress on the internal audit plan;
- (3) work of the fraud team;
- (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**

Paul Clarke, head of internal audit and risk management, LGSS 01604 367130

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## **Background documents**

None

# Report

## Background

1. The audit plan for 2012-13, to be delivered by LGSS following the transfer of the finance function, was endorsed by members in March 2012.
2. The previous update was reported to audit committee on 19 March 2013.
3. This report covers the following areas:
  - audit assurance work between February and the end of March 2013
  - other areas of non-assurance and financial consultancy work
  - the audit plan 2012-13, showing progress against planned audits
  - summary of fraud team work in 2012-13
  - the latest position on the national fraud initiative (NFI)
4. 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 2013

5. At the previous audit committee on 19 March 2013 details were provided of the following areas of assurance work reported on up to February:
  - Provision market
  - Investment property portfolio
  - Contract management procedures
  - Care and repair contract
  - Oracle purchasing module
  - HR starters and leavers
  - Sports facilities
  - Off-street parking
6. The following areas were reported on between February and the end of March:
  - Housing and council tax benefits – moderate assurance. All recommendations were agreed and were due to be implemented by June 2013.
  - Council tax – moderate assurance. All recommendations were agreed and are due to be implemented by July 2013.
  - National non-domestic rates (NNDR) – good assurance. Only two recommendations, both of which were agreed and were due to be implemented by May 2013.
7. All three of the above reviews are currently being followed up.

8. In addition, work progressed on the following areas, which were completed and reported on after year-end:
- Payroll – good assurance. No recommendations necessary.
  - Housing rents – moderate assurance. Recommendations agreed – some in place, remainder due for implementation by end of June 2013.
  - Treasury management – moderate assurance. Three of the recommendations were agreed and put in place during the audit; the remainder are due to be implemented by end of December 2013.
  - Members' expenses (transactions audit) – arrangements found to be working well. Two minor recommendations were agreed and implemented following the audit.
  - Planning income – moderate assurance. Recommendations agreed – some in place, remainder due for implementation by end of December 2013.
  - Homelessness – good assurance. Recommendations agreed and due to be implemented by September 2013.
  - Housing voids – good assurance. Recommendations agreed and due to be implemented by December 2013.
9. Finally, draft reports for the following areas were issued after year-end, but as responses are still awaited the details are provisional at this stage:
- Accounts receivable – limited assurance.
  - Academy IT system (housing) – moderate assurance.
  - Oracle IT system (financial) – moderate assurance.
  - Disaster recovery arrangements – moderate assurance.
  - Business continuity arrangements – this work involved reviewing and updating the scorecard from the previous audit, based on the British Standard. The overall score was 63%, a slight improvement on the previous score.
  - Performance management – framework is working well.

## Progress against the audit plan

10. Details of the annual audit plan for 2012-13 are shown at **annex 1**, showing the planned and actual days for each area of audit assurance work, with non-assurance and consultancy work shown separately.
11. To the end of March 2013, 348 days has been spent on audit assurance work, 92 days on non-assurance work and risk management, and 84 days on New Deal, a total of 524 days.
12. The original plan was based on two part-time members of the team both working four-day weeks. After the plan was endorsed both reduced their hours to approximate three-day weeks, which reduced the resources available for the plan. As reported to a previous meeting 546 days were estimated to be available for 2012-13, instead of 635 originally envisaged.

13. It was reported at your previous meeting that additional audit resources were made available from within LGSS internal audit to carry out five of the reviews in the plan. These are noted in annex 1, but did involve some input from staff in the Norwich team, both in preparing for the audits and seeing them through to completion. The split of time for each of these audits is also shown in annex 1.
14. All bar two audits were scoped and commenced in 2012-13, but in a number of cases will be completed in 2013-14. Given the additional time spent resolving the NELM issues it was also reported at your previous meeting that two audits of considered low risk have been deferred to 2013-14.

## **Summary of fraud team work 2012-13**

15. A summary of work by the fraud team for 2012-13 follows (figures in brackets are for the 2011-12 comparator):

- Number of benefit cases referred to the fraud team – 641 (771). This needs to be noted in context that there are approximately 20,000 benefit claims in the area covered by Norwich City Council.
- Number of referred benefit cases investigated – 480 (577)
- Number of benefit sanctions and prosecutions – 55 (106), of which 38 were led by Norwich (57 in 2011-12). There are a number of factors related to the reduction, including one officer reducing their hours by 55%, the DWP changing their driver to concentrating on higher value cases, a dip in the number of referrals, and one officer spending part of their time dealing with financial investigations.
- The total overpaid benefit (including administrative penalties) for the 55 proven fraud cases was £266,204 (£265,280 in 2011-12) at an average of £4,840 per case (£2,503).
- The fraud team had direct input into the recovery of seven (five in 2011-12) council properties (four of which were the result of benefit fraud investigations).

## **National fraud initiative (NFI) 2012-13**

16. This is the main data matching exercise which occurs every two years. The results were received at the end of January 2013.
17. There are 72 reports, mainly covering benefits and housing, and a total of 2,669 matches, of which the Audit Commission recommended 554 as a priority for investigation. The majority of matches relate to housing benefit. Staff in various departments have made good progress in reviewing matches to identify any further action that needs to be taken – to date 65% of reports and matches have been closed.
18. So far the exercise has uncovered one housing fraud which led to the recovery of a council property; and identified one duplicate payment for £2,474 made in error – however, this had already been picked up by the supplier and refunded.

LGSS Internal Audit Plan for Norwich City Council 2012-13					
	2012-13				
	Original	Actual to Wk 52			
<b>Audit Assurance Work</b>	estimated	Norwich	Camb.		
	days	staff	staff	Total	Comments / latest position
<b>Fundamental systems</b>					
Accounts payable (creditors)	20	3.1			In progress
Accounts receivable (debtors)	15	14.1			Draft report issued
NCC payroll	15	7.3			Completed April 2013. Good assurance
Housing rents/arrears	20	26.5			Completed April 2013. Moderate assurance
Treasury & cashflow management	10	20.3			Completed June 2013. Moderate assurance
Housing & council tax benefits	25	36.6			Complete. Moderate assurance
Council tax	10	14.5			Complete. Moderate assurance
NNDR	10	15.2			Complete. Good assurance
Fixed assets	10	1.4			Complete
<b>Sub-total</b>	<b>135</b>	<b>139.0</b>		<b>139.0</b>	
<b>Corporate resources</b>					
New Deal finalisation	40	83.9		83.9	Complete
General ledger	20	1.6		1.6	In progress. Journals; suspense accounts; departmental transfers
Proactive anti-fraud measures	10	3.3		3.3	Complete
Information management	10	9.3		9.3	In progress
Grant certification & contributions	25	0.8		0.8	In progress
Civic/members expenses	5	1.9	2.4	4.3	Completed May 2013. Good assurance
Register of electors	5				Slip to 2013-14
Business support & customer contact	20	23.3		23.3	In progress. Extra work required on controlled stationery
<b>Sub-total</b>	<b>135</b>	<b>124.1</b>	<b>2.4</b>	<b>126.5</b>	
<b>Regeneration &amp; development</b>					
Business continuity management	15	0.6	5.2	5.8	Draft report issued
Planning administration	10	1.6	8.9	10.5	Completed May 2013. Moderate assurance
Homelessness	15	1.4	7.1	8.5	Completed May 2013. Substantial assurance
Housing voids	15	1.5	4.2	5.7	Completed June 2013. Substantial assurance
Off-street parking	20	34.2		34.2	Complete. Moderate assurance. Extra testing, plus some findings disputed
<b>Sub-total</b>	<b>75</b>	<b>39.3</b>	<b>25.4</b>	<b>64.7</b>	
<b>Strategy &amp; programme management</b>					
Transformation/change programme	25				Slip to 2013-14
Performance management	10	9.9		9.9	Draft report issued
<b>Sub-total</b>	<b>35</b>	<b>9.9</b>		<b>9.9</b>	
<b>Communications and culture</b>					
Sports facilities	10	14.5		14.5	Complete. Further work required re cheque payments and season tickets
<b>Sub-total</b>	<b>10</b>	<b>14.5</b>		<b>14.5</b>	

	2012-13				
	Original	Actual to Wk 52			
<b>Audit Assurance Work</b>	estimated	Norwich	Camb.		
	days	staff	staff	Total	Comments / latest position
<b>Corporate reviews</b>					
Ad-hoc investigations	20	9.4		9.4	Audit involvement in four special investigations
ICT audits:		12.0		12.0	Preparation / support for ICT audits; PCI compliance
Academy (housing)	15		6.4	6.4	Draft report issued
Oracle (financial)	15		6.9	6.9	Draft report issued
Disaster recovery	15		6.7	6.7	Draft report issued
Contingency:	75				
Review of contract mgt procedures		12.4		12.4	Complete
To complete 2011-12 plan:	25				
Regalia		1.9		1.9	Review file & report
Provision market		18.3		18.3	Complete
Oracle purchasing		11.9		11.9	Complete
Care & repair		5.2		5.2	Complete
HR starters & leavers		5.1		5.1	Complete
Treasury management		15.2		15.2	Complete
Investment property portfolio		5.2		5.2	Complete
Follow-ups:	10				
NNDR		1.4		1.4	Satisfactory progress on main recommendations
Accounts receivable		3.3		3.3	Satisfactory progress on main recommendations
Licensing		0.3		0.3	Outstanding actions are awaiting completion of the licensing policy review
Payroll		1.5		1.5	Satisfactory progress on main recommendations
Others		2.1		2.1	
<b>Sub-total</b>	<b>175</b>	<b>105.2</b>	<b>20.0</b>	<b>125.2</b>	
<b>Total for audit assurance work</b>	<b>565</b>	<b>432.0</b>	<b>47.8</b>	<b>479.8</b>	
<b>Consultancy &amp; non-assurance work</b>					
Corporate governance	15	16.3		16.3	Preparation of annual governance statement; corporate governance group
Fraud, incl. NFI, fraud survey, AF70s	30	32.3		32.3	Key contact for NFI 2012 (co-ordinate investigations). Fraud survey submitted
Risk management	0	14.7		14.7	Corporate risk register; training for managers
Advice, unplanned work requests	25	28.2		28.2	Contingency, including involvement with tenders/contracts
<b>Total for non-assurance/consultancy</b>	<b>70</b>	<b>91.5</b>		<b>91.5</b>	
<b>Total Days</b>	<b>635</b>	<b>523.5</b>	<b>47.8</b>	<b>571.3</b>	