

Report to	Audit committee 18 November 2014	Item
Report of	Head of internal audit and risk management, LGSS	7
Subject	Internal audit and fraud team 2014-15 – September to October update	

Purpose

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

Recommendations

To note:

- (1) the work of internal audit between September and October 2014;
- (2) the progress on the 2014-15 internal audit plan;
- (3) the work of the fraud team between April and October 2014;
- (4) the 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

Jonathan Idle, head of internal audit and risk management, LGSS	01223 715317
Steve Dowson, head of internal audit, LGSS	01603 212575
Andrew Rush, team leader (fraud), LGSS	01603 212632

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 September to October 2014, plus other areas of non-assurance work
 - the audit plan 2014-15, showing progress against planned audits
 - summary of fraud team work April to October 2014
 - 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 September to October 2014

4. The following areas were reported on between September and October:
 - Council tax – substantial assurance. There was assurance across the processes for maintaining the CTAX database; setting the annual council tax requirement and precept of the collection fund; annual billing, including subsequent exemptions; correct application of discounts, exemptions, refunds and write-offs; and reconciliations to cash receipting and the ledger.

However, the council has a high proportion of dwellings receiving single person discount (SPD) compared to its statistical 'family'. The revenues service has not had sufficient resources to proactively review these discounts, relying instead on the Audit Commission's national fraud initiative (NFI) data matching exercise to provide possible cases for further investigation.

To address this, a proposal has been put forward for the council to join a pooled team for a review of all SPDs across Northamptonshire and Norwich. This is currently being discussed with the relevant county councils and a decision on funding is awaited.
 - BACSTEL-IP – moderate assurance. BACSTEL-IP is the channel for accessing BACS electronic funds transfer services using the BACS payment service website or using the BACS approved software for BACSTEL-IP. There was assurance over accuracy and completeness of BACS output reports; management and monitoring information; and backup and business continuity procedures.

However, Some BACS procedure documents are incomplete or out of date, and have not been consolidated into a single document; the benefits team does not check and authorise weekly benefits payment files that are created from the Northgate system; some of the authorised forms that were used to issue payment smartcard to officers could not be located; and inadequate segregation of duties in the BACS process for benefits payment file creation and transmission.

Six recommendations were agreed which are due to be implemented by the end of December 2014.

- Oracle purchasing – substantial assurance. The Oracle purchasing module enables full electronic processing of purchase orders. There was assurance across the speed of processing requisitions; monitoring of open requisitions and orders; procedures in place for correction of errors; training and guidance provided to staff; and monitoring of proposed orders for compliance to contract procedures.

However, access permissions to Oracle and approval hierarchies are out of date; there appears to be a superfluous step in the approval process; and there is no procurement procedure manual, plus other guidance for users needs updating.

Eight recommendations were agreed which are due to be implemented by March 2015.

5. Other assurance work which is in progress is shown in **annex 1**.

Non-assurance work

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

- Updating the council's risk management policy and strategy.
- Checking and uploading datasets for the NFI 2014-15 data matching exercise.

Progress against the audit plan

7. Details of the annual audit plan for 2014-15 are shown at annex 1, showing estimated and actual days for each area of audit assurance work, with non-assurance work shown separately.
8. To the end of October 2014, 220 days has been spent on audit assurance work. This includes work on audits started at the end of 2013-14 but not completed. 48 days were also spent on non-assurance work and unplanned request work.
9. One of the IT audits is complete; the four others are nearing completion and should be reported on by the end of November.
10. Discussions on addressing the outstanding assurance reviews in the plan will be held with management and reported back to a subsequent meeting.
11. The planned restructure of the LGSS internal audit service is at the consultation stage, but going forward it is the intention to continue to utilise audit resources from the wider service to carry out audit assurance reviews in the plan.

Summary of fraud team work April to October 2014

12. 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 – 393 (559)
 - Number of referred benefit cases investigated – 240 (295)
 - Number of benefit sanctions and prosecutions – 44 (21)

13. At the end of October the fraud team had identified benefit overpayments in excess of £271,600. The annual KPI for this is £160,000 (approximate running costs of the fraud team), so this measure has already been substantially exceeded.
14. By the end of October the fraud team had completed 44 sanctions and prosecutions (the total for the whole of 2013-14 was 40).
15. With benefit fraud work moving to the Department for Work and Pensions (DWP) from April 2015, the fraud team leader spent a large part of August working on a bid document for submission to the Department for Communities and Local Government (DCLG). Funding is available totalling £16.6m that local authorities could bid for to retain a counter-fraud service and work on new and developing areas of counter-fraud including prevention, detection and deterrence work.
16. The bid is for counter-fraud work across LGSS, incorporating partners in Northampton Borough Council, Northamptonshire County Council and Cambridgeshire County Council.
17. The closing date for submissions was 5 September and successful authorities were originally to be informed by the end of October; however, the outcome has been delayed until at least 17 November to allow ministers more time to review the bids.

National fraud initiative (NFI) 2012-13

18. 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.
19. There are 74 reports, mainly covering benefits and housing, and a total of 2,677 matches.
20. The majority of matches relate to housing benefit. Staff in the relevant service areas have made good progress in reviewing matches to identify any further action that needs to be taken – to date 93% of reports have been closed. The council's progress was rated as 'green' by the external auditors in their last audit results report.
21. So far the exercise has uncovered one housing fraud which led to the recovery of a council property.
22. In addition, £166,518 of housing benefit overpayments has been identified. Eleven cases totalling £79,221 were due to fraud, resulting in four prosecutions, five administrative penalties and two official cautions. 44 cases totalling £87,297 were due to either official error (19) or customer error (25). All the overpayments are recoverable by reductions in weekly benefits.
23. Finally, a duplicate creditor payment of £2,993 from 2010 was identified. Following investigations by council staff and the supplier a full refund was received.
24. All of the required datasets for the 2014-15 data matching exercise in October 2014 have been uploaded. The resulting matches should be made available by the end of January 2015.
25. For members' information, the Audit Commission's annual fraud report '*Protecting the Public Purse 2014*' is now available on e-bulletin.