

## Report for Information

**Report to** Audit committee  
29 November 2011

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**Report of** Audit manager  
**Subject** Internal audit and counter fraud 2011-12 - Update

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### Purpose

To advise members of progress on the 2011-12 internal audit and counter fraud plans.

### Recommendations

That members note the progress on the internal audit and counter fraud plans.

### 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

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### Background Documents

Audit Committee 21 June 2011 – "Internal Audit and Counter Fraud Plans 2011-12"

# Report

## Background

1. The audit plan for 2011-12 was approved by members in June 2011.
2. This report covers the following areas:
  - audit assurance work during the period April to October 2011
  - 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 2011
  - progress on investigating matches from the Audit Commission's national fraud data matching initiative 2010
3. For each audit assurance 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 on up to the end of October are as follows:
  - Payroll – outsourced - partial assurance
  - National non-domestic rates – moderate assurance
  - Oracle purchasing module – due to a planned extended period of leave by the auditor, an interim report was sent to the manager in order that a start could be made on addressing the significant issues found. At this stage no assurance rating has been given.
5. There are no significant issues to report from the reviews of payroll and NNDR.

## Follow ups

6. The following audits have been followed up and reported to management (satisfactory progress had been made on all of the main recommendations):
  - Budgetary control
  - Insurance arrangements
  - Tourist information centre
  - Cemeteries
  - Stray dog scheme

## **Progress against the audit plan**

7. Details of the annual audit plan for 2011-12 are shown at **Annex 1**, showing the planned and actual days for each area of audit assurance work, plus non-audit and consultancy work shown separately.
8. To the end of October 2011, 123 days has been spent on audit assurance work (including audits from the previous plan), 82 days on non-audit and consultancy work and 99 days on New Deal, a total of 304 days.
9. A number of audits are in progress, but two members of the audit team are currently engaged in addressing queries from the Department of Communities and Local Government (CLG) following the completion of the New Deal scheme. It is possible that this work may continue into December, which will have a significant impact on internal audit resources.
10. The original plan anticipated a shortfall in resources of 55 days, which was intended to be covered by outsourcing some audits. It is now obvious that more audits will have to be outsourced than were originally expected, although exactly how much will depend on the progress of the work on New Deal.
11. A procurement exercise for outsourcing some of the audit assurance work has been started and members will be kept informed of progress at future meetings.

## **Summary of fraud team work**

12. A summary of work by the fraud team to the end of October 2011 follows:

- Number of benefit cases referred to fraud team – 438 (509 as at Oct 2010)
- Number of referred benefit cases investigated – 335 (445 as at Oct 2010)
- Number of benefit sanctions and prosecutions - 60 (24 simple cautions, 13 admin penalties and 23 prosecutions). (67 as at Oct 2010.) The target for the year is 80
- Number of social housing properties reclaimed as a result of investigations by the fraud team – one (four as at Oct 2010). The team was also involved in a case where a fraudulent application was made for housing – the person was removed from the register and given a simple caution
- Investigating results from pilot exercise on council tax single person discounts
- Investigating matches from national fraud initiative (see below).

## **Progress against the counter fraud plan**

13. Policies and procedures in housing are being strengthened to counter the risk of fraud, and the fraud team leader works closely with housing staff to raise awareness of fraud and deliver fraud training. One property has been recovered as a result of a national fraud initiative (NFI) match and one as a result of investigations by the fraud team.
14. The fraud team has investigated 335 cases of possible benefit fraud which resulted in 60 sanctions and prosecutions (see above).

15. An internal audit of purchase cards resulted in a 'limited assurance' report, although no evidence of fraudulent use was identified. Management accepted all the recommendations, which will be followed up by audit in the current year.
16. A summary of progress against the counter fraud plan is shown at **Annex 2**.

### **Progress against Audit Commission's national fraud initiative (NFI) 2010**

17. The results from the 2010 NFI data matching exercise were received at the end of January 2011.
18. In total there were 3,336 matches spread over 66 reports covering benefits, housing tenancy and right to buy, payroll, insurance claims, transport passes (concessionary bus passes and permit parking), and creditors.
19. Staff in housing, internal audit, fraud, customer contact and accounts payable have almost completed reviewing the matches and the results are summarised in the following paragraphs.
20. It is important to note that computerised data matching with other bodies allows potentially fraudulent claims and payments to be identified. Where a match is found it may indicate that there is an inconsistency in the data that requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out.
21. Nine of the 66 reports remain open as at 18 November 2011. Six of these relate to benefits (28 matches outstanding) and three relate to housing (six matches outstanding). All but four of the outstanding matches are being progressed by staff in housing, fraud or benefits.
22. Therefore 3,302 matches have either been closed individually or globally as part of closing whole reports. This represents **99%** of the total matches.
23. An analysis of the results from investigating the matches follows:

<u>Report type</u>	<u>No. of frauds</u>	<u>No. of errors</u>	<u>Value £</u>
Benefits	0	12	19,682
Housing tenancy	1	55	0
Housing right to buy	0	1	0
Parking permits	0	1	0
Concessionary passes	0	161	0
Creditors standing data	0	13	0
Creditors history	0	2	11,495
<b>Total</b>	<b>1</b>	<b>245</b>	<b>31,177</b>

24. Headline results from investigations to date are:

- One case of subletting a housing property identified – the property was recovered.
- Benefits overpayments, either due to customer error or official error, totalling £19,682. This has resulted in a reduction of weekly benefit of £263 and recovery of £742 is in progress.
- A duplicate creditor payment of £2,085. This has been recovered.
- An overpayment of VAT of £9,410. This was corrected on the last VAT return.

25. Work is continuing to investigate the outstanding matches, and a final update will be presented to members once the exercise is complete.

26. For information, members who wish to see the Audit Commission's report on the national results from the 2008-09 data matching exercise, together with a members' briefing, can view these on the NFI website at <http://www.audit-commission.gov.uk/fraud/nfi/reports/pages/default.aspx>.

<b>Internal Audit Plan 2011-12</b>					
	<b>2011-12</b>				
<b>Audit Assurance Work</b>	<b>Indicative</b>	<b>Actual</b>	<b>Previous</b>		
	<b>Days</b>	<b>to Wk 30</b>	<b>year</b>	<b>Priority</b>	<b>Comments</b>
<b>Fundamental systems</b>					
Accounts payable (creditors)	15			H	
Accounts receivable (debtors)	10			H	
Payroll	10			H	Outsourced - draft report issued
Housing rents/arrears	20	15.4	3.7	H	In progress but delayed due to work on NELM
Income/cash receipting	10			H	
Treasury & cashflow management	10			H	
Housing & council tax benefits	15			H	
Council tax/NNDR	20	8.1	9.6	H	NNDR - final report issued
Asset management	20	18.7	8.2	H	Ordering procedures complete; regalia in progress
<b>Sub-total</b>	<b>130</b>	<b>42.2</b>			
<b>Corporate resources</b>					
Grant claim certification	15			H	
Data protection/freedom of information	15	0.2		H	
Procurement	20			H	
<b>Sub-total</b>	<b>50</b>	<b>0.2</b>			
<b>Regeneration &amp; development</b>					
Investment portfolio - rents, voids, etc.	15			H	
Highways agency	15			H	
NCAS & CCTV	5	2.3	7.9	M	In progress but delayed due to work on New Deal
Car parks income	10			H	
Provision market	10	6.0		H	In progress
Leasehold services	15			H	
<b>Sub-total</b>	<b>70</b>	<b>8.3</b>			
<b>Strategy &amp; programme management</b>					
Energy efficiency	15	0.3		H	
<b>Sub-total</b>	<b>15</b>	<b>0.3</b>			Sub-total not included in original plan - now corrected
<b>Communications and culture</b>					
Tourism, sports and events	10			M	
<b>Sub-total</b>	<b>10</b>	<b>0</b>			

<b>Audit Assurance Work (cont.)</b>	<b>Indicative Days</b>	<b>Actual to Wk 30</b>	<b>Previous year</b>	<b>Priority</b>	<b>Comments</b>
<b>Corporate reviews</b>					
Commissioning and grants payable	15	1.2		H	Includes final LEGI certification
Ad-hoc investigations	20	0.7		M	No major investigations to date
Probity	25	8.0		H	Accounts payable; member/officer expenses
Outsourced IT audits:	15	5.9		H	Includes work on PCI compliance
Northgate (revenues & benefits)					
Civica (customer contact)					
PARIS (cash receipting)					
<b>Sub-total</b>	<b>60</b>	<b>15.8</b>			
<b>To complete 2010-11 plan:</b>					
Housing rents - included above	0			H	
HR - recruitment/leavers	0	8.3	3.5		In progress but delayed due to work on New Deal
Performance management system	10			H	
Mtce. of housing stock/care & repair	15	6.7		H	In progress but delayed due to work on New Deal
Neighbourhood teams	0			M	
Major contracts & Leisure Centre	15	0.7		H	In progress but delayed due to work on New Deal
General ledger	10	13.6		H	Interim report on Oracle Purchasing issued
Private sector leasing	10	0.1	1.0	H	In progress but delayed due to work on New Deal
Choice based letting	10	12.5	6.3	M	In progress but delayed due to work on New Deal
<b>Sub-total</b>	<b>70</b>	<b>41.9</b>			
<b>Follow-ups and post-audit work</b>	20			H	
Budgetary control		0.2			Satisfactory progress on action plan
Insurance arrangements		0.9			Satisfactory progress on action plan
Tourist Information Centre		1.1			Satisfactory progress on action plan
Cemeteries		2.1			Satisfactory progress on action plan
Stray dog scheme		1.2			Satisfactory progress on action plan
Purchase cards		6.2			Includes audit review of updated procedures
General		2.9			Post audit work not requiring reports
<b>Sub-total</b>	<b>20</b>	<b>14.6</b>			
<b>Total for audit assurance work</b>	<b>425</b>	<b>123.3</b>			

	Indicative Days	Actual to Wk 30			Comments
<b><u>Non-audit &amp; consultancy work</u></b>					
New Deal - grant claims	50	99.1			Post-scheme involvement of audit staff
Corporate governance	30	24.1			Financial regulations; AGS
Fraud plan, incl. NFI	30	17.5			Fraud plan & matches from NFI 2010
Risk management	15	9.1			Corporate risk register; risk strategy
Financial appraisals/tenders/final a/cs	5	4.3			Housing repairs & maintenance contract
Advice, unplanned work, requests	30	26.8			
<b>Total for non-audit/consultancy work</b>	<b>160</b>	<b>180.9</b>			
<b>Total Allocated Days</b>	<b>585</b>	<b>304.2</b>			



## Internal Audit Counter Fraud Plan 2011-12

Area	Comments	Resourcing	Position as at October 2011
Housing – unlawful subletting	Highlighted as a risk in 'Protecting the Public Purse'. This risk is the subject of an ongoing national initiative – the council received a grant for participating.  We also received potential matches from the national fraud initiative (NFI) 2010 data matching results, and these have all been investigated.	Fraud team in conjunction with housing staff	A new housing fraud policy has been implemented; procedures are being strengthened; fraud awareness training delivered to neighbourhood housing officers. One property has been recovered as a result of NFI and one as a result of investigations by the fraud team.
Council tax – single person discounts	Highlighted as a risk in 'Protecting the Public Purse'.  We will receive potential matches from NFI 2011 results, and these will be investigated.	Fraud team and council tax staff.	Pilot SPD data matching exercise currently in progress – no SPD cancelled to date. Council tax data for NFI 2011 has been uploaded – results expected February 2012.
Recruitment	Highlighted as a risk in 'Protecting the Public Purse'. Included in internal audit plan for 2010-11.	Internal audit	Audit started, but delayed due to work on NELM.
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 received potential matches from NFI 2010 results, and these have nearly all been investigated.	Fraud team	A summary of investigations and outcomes, including from NFI, is included in the covering report.
Procurement	Highlighted as a risk in 'Protecting the Public Purse'. Included in internal audit plan for 2011-12.	Internal audit	Audit not yet started.
Insurance claims	Highlighted as a risk in 'Protecting the Public Purse'. Our insurance arrangements were audited in 2009-10 and were given adequate assurance.  We also received potential matches from NFI 2010 results, and these were all investigated.	Internal audit	The recommendations were followed up in June 2011 and showed satisfactory progress.  No evidence of fraud found from NFI matches.

**Annex 2**

<b>Area</b>	<b>Comments</b>	<b>Resourcing</b>	<b>Position as at October 2011</b>
Purchase cards	Potential for over £1m. spend annually, with further roll out possible.	Internal audit	Audit report issued in June 2011 which gave limited assurance, although no evidence of fraud identified. Recommendations accepted by management and will be followed up in 2011-12.
Private sector leasing – payments to landlords	Large number of landlords paid on a regular basis, many of whom are individuals.	Internal audit	Audit started, but delayed due to work on NELM