

Report to Audit committee
22 January 2013
Report of Head of audit, risk and insurance, LGSS
Subject Internal audit and fraud team 2012-13 - update

Item

6

Purpose

To advise members of progress on the 2012-13 internal audit plan to December 2012 and the work of the fraud team to October 2012.

Recommendations

- To note the progress on the internal audit plan
- To note progress on the actions being taken as a result of internal audit assurance reviews as set out in the annual governance statement
- To note the work of the fraud team
- To note the latest position on the national fraud initiative (NFI)

Corporate and service priorities

The report helps to achieve the corporate priority Value for money services

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.

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 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. This report covers the following areas:
 - audit assurance work during the period April to December 2012
 - other areas of non-audit and financial consultancy work
 - the audit plan 2012-13, showing progress against planned audits
 - progress on the actions being taken as a result of internal audit assurance reviews, as set out in the annual governance statement
 - summary of fraud team work April to October 2012
 - 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

4. The main areas of assurance work reported on up to the end of December are as follows:
 - Provision market – limited assurance. See annex 2.
 - Investment property portfolio – unsatisfactory assurance. See annex 2.
 - Review of contract management procedures - unsatisfactory assurance. All recommendations were agreed and are due to be implemented by April 2013.
 - Care and repair – moderate assurance. Two of the three recommendations were agreed and are due to be implemented by April 2013.
 - Oracle purchasing module – draft report issued – moderate assurance.
 - HR starters and leavers - draft report issued – moderate assurance. We have now received a response from the head of HR and learning which will enable the report to be finalised.
 - Sports facilities – moderate assurance. All recommendations were agreed and are due to be implemented by March 2013.
 - Off-street parking – draft report issued – moderate assurance.
5. The audits of the provision market and investment property portfolio were included in the 2011-12 audit plan but were not completed until 2012-13. They

were reported on in more detail in the annual report on internal audit 2011-12 and annual governance statement 2011-12. See also annex 2.

Follow ups

6. The following audits have been followed up:

- Accounts receivable – satisfactory progress on main recommendations
- National non-domestic rates - satisfactory progress on main recommendations
- Licensing – approximately half of the recommendations have been implemented. The remainder are dependent on completion of the licensing 'green book' policy review, which has been delayed.
- Investment property portfolio – since the audit the function has transferred to NPS Property Consultants. The estates director at NPS has provided a detailed update on progress against the action plan, which shows that all but one of the 30 action points have been addressed. See also annex 2.

Progress against the audit plan

7. 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.
8. To the end of December 2012, 221 days has been spent on audit assurance work (including audits from the previous plan), 56 days on non-assurance and consultancy work and 81 days on New Deal, a total of 358 days.
9. The New Deal scheme has now been finalised with DCLG, therefore the two members of staff who were working on this have now resumed normal audit assurance reviews. The 81 days spent on this was double what was planned, but the plan includes a number of contingency days which have been used to cover this.
10. However, the original plan was based on two part-time members of the team both working four-day weeks. Since the plan was endorsed both have reduced their hours to three-day weeks, which reduces the resources available to complete the plan. As reported at your previous meeting 546 days are estimated to be available for 2012-13, as opposed to 635 originally envisaged.
11. Taking account of the estimated time needed to complete the plan as shown at the end of annex 1 (228 days) and the estimated staff days available (161 days), there is a projected shortfall of up to 67 days.
12. Options to address this shortfall are being considered by the LGSS head of internal audit, who in accordance with the agreed performance indicators will ensure sufficient LGSS resources are deployed to meet the requirements of the plan. The internal audit plan is also continuing to be reviewed to determine if any low priority audits can be removed from the plan and this will be specifically

considered and reported to your next meeting.

Progress on action plan from the 2011-12 annual governance statement

13. This is the regular progress report on the actions being taken on significant issues following internal audit assurance reviews, as set out in the annual governance statement in the statement of accounts 2011-12.
14. The issues, responses and progress to date are shown in **annex 2**.
15. Progress will continue to be monitored and reported.

Summary of fraud team work

16. A summary of work by the fraud team to the end of October 2012 follows. Figures in brackets are for the October 2011 comparator (an update to December will be provided at your meeting):
 - Number of benefit cases referred to fraud team – 406 (438)
 - Number of referred benefit cases investigated – 321 (335)
 - Number of benefit sanctions and prosecutions - 37 (60)
 - There is still one case under investigation from the NFI, which is likely to result in a prosecution.
 - A benefit claimant who claimed around £20,000 fraudulently was sentenced to six months imprisonment.
 - Worked with private sector housing to achieve a successful proceeds of crime act (POCA) prosecution against a landlord. Norwich City Council is the first local authority in the country to use POCA against a landlord who failed to comply with licence conditions.

National fraud initiative (NFI) 2011-12

17. This is the council tax single person discount exercise which occurs in alternate years to the main NFI exercise (see below).
18. The results were made available in February 2012 and as with previous years Norfolk County Council agreed to the council's request to provide a temporary member of staff to assist with investigating approximately 1600 matches. It should be emphasised that there is no assumption of fraud just because a match appears in the results.
19. Letters have been sent to those council tax payers identified on the matches as receiving the discount, asking them to confirm or update their circumstances. The exercise is nearing completion, and as a result of the actions taken so far

discounts of nearly £84k have been removed from 300 accounts.

National fraud initiative 2012-13

20. This is the main data matching exercise which occurs every two years. The council uploaded all the required datasets by the October 2012 deadline and results are expected at the end of January 2013.

LGSS Internal Audit Plan for Norwich City Council 2012-13				
	2012-13			
Audit Assurance Work	Estimated days	Actual to wk 39	Estimated to complete	Reason for inclusion in plan / comments / latest position
Fundamental systems				
Accounts payable (creditors)	20		15	Beginning February
Accounts receivable (debtors)	15		15	Beginning February
NCC payroll	15		15	Beginning February
Housing rents/arrears	20	4.3	16	In progress
Treasury & cashflow management	10	17.6	1	Draft report prepared. Extra testing on investments and borrowings
Housing & council tax benefits	25	14.8	10	In progress
Council tax/NNDR	20	7.9	12	Both in progress
Fixed assets	10		10	
Sub-total	135	44.6	94	
Corporate resources				
New Deal finalisation	40	81.2	0	Complete
General ledger	20		10	Journals; suspense accounts; departmental transfers; access to system
Proactive anti-fraud measures	10	0.7	9	Requested by CLT - policies, promotion, training, etc. In progress
Information management	10	9.0	1	Requested by CLT - data protection & freedom of information. In progress
Grant certification & contributions	25	0.8	15	Audit involvement recommended by Audit Commission. In progress
Civic/members expenses	5		5	Cyclical
Register of electors	5		5	Cyclical
Business support & customer contact teams	20	22.4	3	In progress. Extra work required on controlled stationery
Sub-total	135	114.1	48	
Regeneration & development				
Business continuity management	15		10	From corporate risk register. Scheduled for Jan 2013
Planning administration	10		10	Cyclical. Scheduled for Feb/ Mar 2013
Homelessness	15		15	Cyclical
Housing voids	15		15	Cyclical
Off-street parking	20	31.7	1	Draft report issued. Extra testing requested by audit manager
Sub-total	75	31.7	51	
Strategy & programme management				
Transformation/change programme	25		15	Suggested at CLT - governance/risk mgt re major savings over next 5 years. March '13
Performance management	10	7.4	3	In progress
Sub-total	35	7.4	18	
Communications and culture				
Sports facilities	10	14.4	0	Complete. Further work required re cheque payments and season tickets
Sub-total	10	14.4	0	

	2012-13			
	Estimated	Actual	Estimated	
Audit Assurance Work	days	to wk 39	to complete	Reason for inclusion in plan / comments / latest position
Corporate reviews				
Ad-hoc investigations	20	9.4	6	Audit involvement in four special investigations
ICT audits:		2.5		Preparation for ICT audits
Academy (housing)	15		0	Core system in the Norwich Connect contract - LGSS to resource end Jan
Oracle (financial)	15		0	Core system in the Norwich Connect contract - LGSS to resource end Jan
Disaster recovery	15		0	ICT disaster recovery, backups, links to BCM - LGSS to resource
Contingency:	75			
Review of contract mgt procedures		12.3	0	Complete
To complete 2011-12 plan:	25			
Regalia		1.8	2	Review file & report
Provision market		18.3	0	Complete
Oracle purchasing		7.8	2	Draft report issued
Care & repair		4.9	0	Complete
HR starters & leavers		3.8	0	Draft report issued - response received from head of HR and learning
Treasury management		15.2	0	
Investment property portfolio		5.1	0	Complete
Follow-ups:	10			Follow ups required by Code of Practice
NNDR		1.4	0	Satisfactory progress on main recommendations
Accounts receivable		3.3	0	Satisfactory progress on main recommendations
Licensing		0.2	0	Outstanding actions are awaiting completion of the licensing policy review
Payroll		1.5	0	Response delayed
Others		2.1	0	
Sub-total	175	89.6	10	
Total for audit assurance work	565	301.8	221	
Consultancy & non-assurance work				
Corporate governance	15	13.6	2	Preparation of annual governance statement; corporate governance group
Fraud, incl. NFI, fraud survey, AF70s	30	23.1	2	Fraud risks & key contact duties for NFI 2012 (data upload)
Advice, unplanned work requests	25	19.1	3	Contingency, to include involvement with tenders/contracts
Total for non-assurance/consultancy work	70	55.8	7	
Total Allocated Days	635	357.6	228	
Resource required to complete plan			228	
Resource available over next 13 weeks:			161	Based on 13 weeks, working pattern, bank holidays and planned annual leave
			-67	Estimated shortfall, based on 85% productivity

LGSS internal audit assurance reviews – progress on recommendations

Significant issues	Response	Implementation Date	Progress as at December 2012
Investment property portfolio:			
Significant weaknesses in control processes relating to procedures, lettings and IT systems, resulting in an unsatisfactory assurance opinion	Recommendations accepted. However, following the transfer to NPS, timescales for completion of the actions will depend on the outcome of the new management structure.	Action plan to be updated by end July 2012	New management structure in place and action plan agreed and in progress. All but one of the 30 action points are either in place or are being addressed via alternative solutions.
Accounts payable:			
Access to make changes to vendor data not sufficiently restricted and no independent authorisation or review of changes made. Inadequate segregation of duties between ordering, receipting and inputting invoices onto Oracle	Recommendations accepted. Access to be reduced and sample checking to be considered. Access levels to Oracle will be reviewed.	June 2012	There have been a number of staff changes at the exchequer services team leader level which has delayed implementation of the recommendations. The team leader (LGSS) is currently exploring what reports are available from the council's version of Oracle in order to address the recommendations.
Council tax:			
Recovery section not required to provide reporting on council tax arrears to senior management and no structured methodology on dealing with arrears reports and debt management.	Recommendations accepted. 1. The draft debt management policy will be approved and communicated to all relevant members of staff. We will also formulate a policy for the prioritisation of debt recovery procedures. 2. We will take action to address the backlog in the review of arrears.	September 2012	1. Policy approved by cabinet in December 2012 2. Procedures now in place as a result of the audit. The council tax team meet monthly to review outstanding arrears and debt management
Procurement:			
Key council policies/strategies relating to	Recommendations accepted. 1. We will update the council's	September 2012	1. Currently investigating whether the anti-fraud and corruption strategy from LGSS, plus other

Significant issues	Response	Implementation Date	Progress as at December 2012
<p>counter-fraud are not regularly reviewed. In particular, the anti-fraud and corruption strategy does not reflect the Bribery Act 2010. The council's standing orders relating to contracts have not been updated since March 2008.</p> <p>The procurement team do not actively or consistently address the potential risks of supplier failure.</p>	<p>strategies at least every two years to ensure that they remain current and up to date. In particular, the anti-fraud and corruption strategy will be updated to reflect the Bribery Act.</p> <p>2. We will introduce detailed procurement procedures for quotations and tenders to support contract standing orders and circulate them to all relevant officers.</p> <p>3. The procurement team will identify and address the potential risks of supplier failure and the subsequent exposure of the council.</p>		<p>policies, would be suitable for implementing at the council.</p> <p>2. Contract procedure rules (standing orders) have been updated but are currently being reviewed as part of the update of the constitution.</p> <p>A contract management framework was agreed by CLT and is currently being piloted. This will assist training needs to be identified and provided.</p> <p>3. The recently developed and approved business relationship and contract management strategy is accompanied by a contract management toolkit. Part of the toolkit is a monitoring sheet for contract managers relating the need to keep risk registers.</p> <p>The need to operate adequate risk processes, including resilience plans that embrace all the council's own requirements, is now included in all relevant service specifications published with tenders</p>
Highways agency:			
<p>48 members of staff have access to the council's penalty charge notice (PCN) database, including 33 staff who also have access to the council's cash receipting system</p>	<p>The cash receipting system needs to be available for all staff who can take payments, the council has set up a multi-tasking environment and this will need a corporate decision to change this and limit cash receipting to a selected few.</p> <p>In future, we will review access to the PCN database on at least an annual basis to ensure access granted remains appropriate</p>	<p>April 2012</p>	<p>Access rights reviewed recently and as a result access to the PCN database was removed for a number of staff</p>

Significant issues	Response	Implementation Date	Progress as at December 2012
Provision market:			
Weaknesses in control processes relating to lack of strategic policy, lack of detailed procedures, public liability insurance, content of leases, rental basis.	Recommendations accepted. An action plan to address the issues will be taken to CLT with a view to full implementation by March 2013	March 2013	The management plan for the market was taken to the business heads of service group in September and approved by the deputy chief executive (operations). Approximately half of the actions are complete or being progressed, with the remainder due for completion by end of March 2013
Northgate revenues and benefits IT system:			
There has not been a review of Northgate user access rights since 2008.	Recommendations accepted. We will ensure at least annual review of user access rights, in conjunction with the users' departmental managers, to ensure access rights are current and appropriate	April 2012	Complete. The administrator rights have been removed for the individuals concerned and an audit of all Northgate users has been completed
Civica customer contact IT system:			
The council does not obtain any assurance that controls performed by 'Civica' over information security and other IT activities are designed and operate effectively. There has not been a review of Civica user access rights since 2008. Staff outside of the customer contact team that use the Civica system are not routinely trained on how to use the system.	Recommendations accepted. 1. Management will seek to validate that critical third parties supplying IT services have a robust internal control framework. 2. We will ensure at least annual review of user access rights, in conjunction with the users' departmental managers, to ensure access rights are current and appropriate. 3. Access to Civica will only be granted once appropriate training has been received.	August 2012	1. Awaiting response from executive head of business relationship management 2. The privileged access rights have been removed for the individuals concerned and an audit of all Civica users is in progress, to be completed by end March 2013 3. Managers will be instructed to discuss the mandatory e-learning data protection act course with new employees at the first one-to-one/probationary interview for completion by the second interview. HR will be asked to update their induction checklist accordingly. Awaiting response from head of HR and learning