

Report to Audit committee
23 September 2014
Report of Head of internal audit and risk management, LGSS
Subject Internal audit and fraud team 2014-15 – July to September update

Item

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Purpose

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

Recommendations

To note:

- the work of internal audit between July and September 2014
- the progress on the 2014-15 internal audit plan
- the work of the fraud team between April and August 2014
- 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

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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 July to September 2014
 - other areas of non-assurance and financial consultancy work
 - the audit plan 2014-15, showing progress against planned audits
 - summary of fraud team work April to August 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 July to September 2014

4. The following areas were reported on between July and September:
 - Provision market – moderate assurance. There was assurance that stall holders are paying the correct rent as set out in their leases, plus service charges; debt levels are fairly static, with regular meetings held between the markets and sundry income teams to manage outstanding debts; and health and safety and insurance matters are mostly satisfactory. However, rents have not been reviewed for a number of years, and a few historical discrepancies were found between the rents charged and the rent according to the zoning system. In addition, although there are adequate arrangements for following up debts, progress on recovery is not summarised anywhere, which could cause difficulties in the absence of key staff. Finally, the market traders' handbook has not been updated for a while, and arrangements to ensure that existing stall holders have adequate public liability insurance need to be tightened. Eight recommendations were agreed, two of which are already in place. The remainder are due to be implemented by June 2015.
 - National non-domestic rates (NNDR) – full assurance. There was assurance across the processes for maintaining the NNDR database; setting the annual rate and annual billing, including subsequent exemptions, reliefs and amendments; correct application of refunds and write-offs; and reconciliations to cash receipting and the ledger. There were a few minor control weaknesses, but as they were either corrected during the audit or were already known to management no recommendations were necessary.
5. Other assurance work which is in progress is shown in **annex 1**.

Follow ups

6. The following audits were followed up:

- Safety of council properties – satisfactory progress by NPS on the three recommendations.
- Purchase cards – the five recommendations have been implemented by the procurement team.
- Disaster recovery – satisfactory progress by systems support and LGSS IT on the two recommendations

Non-assurance work

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

- Preparing the draft annual governance statement
- Reporting the review of the corporate risk register by CLT to audit committee
- Drafting a report for the constitution working party on updating the council's code of governance
- Preparing for the NFI 2014-15 data matching exercise.

Progress against the audit plan

8. 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 and consultancy work shown separately.
9. To the end of August 2014, 130 days has been spent on audit assurance work. This includes work on audits started at the end of 2013-14 but not completed by the end of March. Norwich staff also spent 30 days on non-assurance work and unplanned request work.
10. All of the IT audits are now in progress following the appointment of a temporary principal auditor, and should be completed by the end of September.
11. Discussions on addressing the outstanding assurance reviews in the plan will be held with management and reported back to a subsequent meeting.
12. 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 August 2014

13. 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 – 307 (380)
 - Number of referred benefit cases investigated – 168 (209)
 - Number of benefit sanctions and prosecutions – 27 (14)
14. At the end of August the fraud team had identified benefit overpayments in excess of £174,000. The annual KPI for this is £160,000 (approximate running costs of the fraud team), so this measure has already been met.

15. With benefit fraud work moving to the Department for Work and Pensions (DWP) from 1 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). There is a two-year fund totalling £16.6m that local authorities can bid for to retain a counter-fraud service and work on new and developing areas of counter-fraud including prevention, detection and deterrence work. The closing date for bid submissions is 5 September and successful authorities will be informed by the end of October. This bid is for counter-fraud work across LGSS, incorporating partners in Northampton Borough Council, Northamptonshire County Council and Cambridgeshire County Council.

National fraud initiative (NFI) 2012-13

16. 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.
17. There are 74 reports, mainly covering benefits and housing, and a total of 2,677 matches.
18. 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.
19. So far the exercise has uncovered one housing fraud which led to the recovery of a council property.
20. In addition, £166,518 of housing benefit overpayments has been identified. Nine cases totalling £42,024 were due to fraud, resulting in two prosecutions, five administrative penalties and two official cautions. 44 cases totalling £124,494 were due to either official error (19) or customer error (25). All the overpayments are recoverable by reductions in weekly benefits.
21. 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.
22. Members may be interested to know that the Audit Commission summarises the outcomes from each data matching exercise in a national report. The latest report, dated June 2014, has been placed on e-bulletin, together with the covering press release. The report, together with other information on NFI, can also be found here: <http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/>
23. The report highlights that the highest value categories of fraud, overpayment or error identified in England continue to be pensions (£74m), followed by council tax single person discount (£39m) and then housing benefit (£33m).
24. Preparations are currently under way for the next data matching exercise in October 2014.