

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio: Performance
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OPEN	

Committee: Resources and Performance – Audit & Risk Committee
Date: 27th October 2015
Subject: Internal Audit Plan 2015/16 and Fraud work –Half Year progress report April to October 2015.

Summary	This report shows the Internal Audit activity against the Strategic Audit Plan 2015/16 and fraud work for April to October 2015
Recommendation	Members are asked to note the report for April to October 2015.

1.0 Introduction and Background

1.1 The Strategic Audit Plan 2015/16, endorsed by the Audit and Risk Committee on 23rd June 2015, sets out the work Internal Audit expect to carry out during the year. This work complies with the requirement under section 3 of the Accounts and Audit Regulations 2015¹ for the Council to

‘ensure that it has a sound system of internal control which:

- a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- b) Ensures that the financial and operational management of the authority is effective.’*

1.2 Performance Standard 2060 of the Public Sector Internal Audit Standards (PSIAS) requires the Audit Manager to report to the Audit and Risk Committee on the internal audit activity and performance relative to this plan.

1. In exercise of powers conferred under the Local Audit and Accountability Act 2014

2.0 Audit work for April to October 2015.

2.1 On completion of each audit a formal report is initially issued to the relevant line managers and the Executive Director for the service concerned. After two weeks copies are also sent to the Chief Executive, Portfolio Holder, Assistant Director (s151 Officer) and the external auditors, Ernst and Young. The report contains an action plan, with target dates, that has been agreed with the managers to address the observations and recommendations raised by Internal Audit. This forms the basis of the follow-up audit, which is carried out approximately six months later to assess progress in implementing the agreed actions.

2.2 Reports issued during the quarter

The following audits have been completed and reports issued as described above:

- Public Open Space – Street Cleansing
- Public Open Space – Allotments
- General Ledger and Budgetary Control (2014/15)
- Resort Services
- Leisure Trust
- Council Tax (2014/15)
- Creditors and Payments (2014/15)
- Payroll (2014/15)
- Annual Governance Statement Review
- Performance and Appraisal
- Non-Domestic Rates and Business Rate Retention Scheme (2014/15)
- Care and Repair follow-up

A summary of the reports is attached as **Appendix 1** and the full versions are available under the relevant year to members of the Audit & Risk Committee on InSite.

2.3 Work ongoing

The following audits were ongoing at the time of writing the report and will be reported to the Committee in the next progress report:

- Recruitment
- Civil enforcement and car parking
- Civic expenses and administration
- Accounts receivable
- Payroll
- Treasury and Cashflow Management
- CCTV
- VAT healthcheck
- Data Protection, Freedom of Information and Environmental Information Regulations

2.4 Other work carried out

Apart from the standard audits, Internal Audit also undertook other work including the following:

- Water Management Alliance audit
- Checks on the Cost of Living and Performance Related Pay calculation spreadsheets
- Review of Statement of Accounts working papers
- Update of the Corporate Risk Register
- Alive Leisure have requested an audit of their Data Protection arrangement
- Attendance at the meetings of some project groups
- Review of Safeguarding Children arrangements when contracting with third parties

2.5 Changes to the Audit Plan

As the workplan for the Core audits has moved from an end of year audit to continuous monitoring throughout the year, the work carried over from 2014/15 on Accounts Receivable and Treasury & Cashflow Management has been incorporated into the 2015/16 reporting schedule. Reports on all the Core audits will take place at the end of year unless a critical weakness is identified that needs to be brought to the attention of the Committee.

3.0 **Performance Indicators**

3.1 Delivery of the Audit Plan

A target of 95% has been set to take in to account any work that may overlap at year end and also to allow for any additional work that may arise during the year. The table below summarises the position against the planned audits contained in the Audit Plan 2015/16.

2015/16 Status of Audits	Audit days used	Percentage of Plan (in days)
Completed and reported	71	17%
In Progress	111	27%
Planned for future quarters	229	56%
Total Planned Audits	411	100%

During the first half of 2015/16 we have completed audits from last year's plan and this time is not reflected in the table above, which deals only with time allocated in the 2015/16 plan.

3.2 Planned audit time

A target of 60% has been set for the full year and for the year to date it has been 60%. This refers to the proportion of the total available time that is

spent on planned audit work rather than management, training, general administration and holidays.

4.0 Work planned for November 2015 to March 2016.

4.1 As well as completing the ongoing work listed in paragraph 2.3, including the project reviews, the following audits are planned for the second half of 2015/16:

Audit Title	Days
Policies	15
ICT Disaster Recovery	15
Accounts Receivable (quarterly testing)	7
Creditors and Payments (quarterly testing)	15
Council Tax and Business rates (quarterly testing)	10
General Ledger and Budgetary Control (quarterly testing)	15
Housing Benefits (quarterly testing)	10
Payroll including Members' expenses (quarterly testing)	10
Treasury and Cashflow Management (quarterly testing)	7
S106 funds/ CIL	15
Business Continuity	15
Housing Options and allocations	15
Leisure Trust	15
Contracts	15
Communications	10
Transparency agenda	10
Careline Community Services	15
Asset Register and Inventories	15
Total	229

5.0 Investigation work April to October 2015

5.1 NFI update

There are currently 2 NFI reporting sites being completed:

- The Flexible Matching Service site
- The NFI 2014/15 Site

There are 2,234 matches within the "Flexible Matching Service Site" of which 2,153 have now been processed. These matches mainly consist of Council Tax Single Person Discount (SPD) review matches, the outstanding matches are for rising 18 year olds held on electoral roll information. Some matches refer to details where the second adult is due to turn 18 between now and the end of the financial year. All recommended (these are completed on a high priority basis) matches have now been completed. Due to a recent Datatank SPD Review being completed on 4,305 Council Tax Accounts, which resulted in 855 cancelled SPD awards, some of the information within these matches has been duplicated and so we are only completing certain matches within the report.

There are 1,929 matches within the "NFI 2014/15 Site" of which 1,221 have now been processed. These matches are spread over 46 different reports, covering Housing Benefit and Creditor matches. There are currently 11 reports that still require processing, mainly Creditor matches (**Appendix 2**). All 'Recommended' (these are completed on a high priority basis) matches have now been completed.

In total there were 4,163 matches received, 3,374 have now been processed and 789 are waiting to be processed.

5.2 Tenancy fraud

The Investigator commenced his position within the team on 01 April 2015. To date work has been carried out to produce an investigation manual to provide guidance, support and assistance within all types of criminal investigations including Tenancy Fraud, which is a new area of investigation for the Council.

We are conducting 1 investigation with Circle Housing Wherry currently and progressing the investigation to establish whether there are grounds to instigate criminal proceedings. Training has been arranged for the team along with officers from the Housing Team which will be conducted in October 2015.

The Law states that Local Authorities have been given the authority to conduct Social Housing Fraud investigations on behalf of Social Housing providers. Research is being carried out to identify prospective clients and work is also being carried out with regards to costing investigations for contractual agreement purposes. Services will then be offered and this should generate further cases for investigation. Alongside Housing Associations, some neighbouring Local Authorities have also been identified who hold Housing stock and have not retained staff with investigative skills and experience.

5.3 Council Tax Reduction Scheme

Due to the transfer of Housing Benefit Investigations to the Department for Work and Pensions (DWP) with effect from 1 April 2015, a new referral procedure has been produced because some types of Council Tax Reduction Scheme investigations will be affected by the actions of the DWP. The Investigator has held briefing sessions with the Benefit Assessment staff and also the Benefit Advice and Review Team, in order to relay the new procedures and also provide further information about what types of allegations need to be referred. The DWP send through forms known as Local Authority Exchange of Information Forms (LAEIF), these are to be checked by the Investigator to identify any cases that require Council Tax Support Investigations to be conducted.

5.4 Identified Fraud and Error figures

The following figures reflect the fraud and error identified following investigations being carried out for the period 1 April 2015 to 30 September 2015:

Housing Benefit (inc Discretionary Housing Payments) & Council Tax Benefit	£33,096.10*
Council Tax Reduction Scheme	£4,094.19*
Council Tax	£1,941.88
National Non-Domestic Rates	£46,060.00
Duplicate Creditor Invoice	£28,543.00
Total fraud and error identified	£113,735.17

**Some of the fraud and error identified for Housing Benefit (including Discretionary Housing Payments) & Council Tax Benefit along with Council Tax Reduction Scheme hold fraud and error figures identified from investigations which commenced prior to the Investigation Team transferring to the DWP, but the claims were not amended until after 1 April 2015.*

6.0 Conclusion

- 6.1 Progress to date has been satisfactory and at this point nothing has arisen to suggest that the plan will not be completed within the year. If anything does arise that will impact on the completion of the plan, the Committee will be informed at the next available meeting.
- 6.2 This report provides Members with an overview of the audit activity and outcomes over the period, and provides an opportunity for Members to seek further information if required.

Notes to support the summary in Appendix 1

The following tables provide an explanation of the terms used to grade the recommendations contained in the final audit reports, and the overall opinion attributed as the result of each audit.

Recommendations

The observations and recommendations are allocated a grading High, Medium or Low as defined below:

High	Major risk requiring action by the time the final report is issued.
Medium	Medium risk requiring action within six months of the issue of the draft report.
Low	Matters of limited risk. Action should be taken as resources permit.

Please note - 'Low' recommendations are not summarised in this report due to the insignificant nature of the issue.

Audit Opinion

At the conclusion of the audit an overall audit opinion is formed for the audit area. The definition for each level of assurance is given below.

Full Assurance	A sound system of internal control that is likely to achieve the system objectives, and which is operating effectively in practice.
Substantial Assurance	A sound system of internal control, but there are a few weaknesses that could put achievement of system objectives at risk.
Limited Assurance	A system of internal control with a number of weaknesses likely to undermine achievement of system objectives, and which is vulnerable to abuse or error.
No Assurance	A fundamentally flawed system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error.

Audits completed in the first half of 2015/16	Overall Opinion
<p><u>Public Open Space – Street Cleansing</u> Report published in March 2015.</p> <p>The recommendations made included 1 ‘High’, 4 ‘Medium’ and 1 ‘Low’. The ‘High’ recommendation was to maintain a record of referrals to “Peaceful Pets” (for the removal and disposal of dead animals of public land) to verify the invoices before payment. The ‘Medium’ recommendations related to management of staff warnings; clarifying the Driving at Work procedures; reconciliation of Dogotel invoices before payment; and maintaining training records.</p>	Substantial Assurance
<p><u>Public Open Space – Allotments</u> Report published in April 2015</p> <p>The report contained 5 ‘High’ recommendations and 14 ‘Medium’ recommendations. Responsibility for managing the Allotments has recently transferred to the Public Open Space (POS) team and staff had already recognised that a lot of issues required attention. As a result the audit became more of a consultancy role and the auditor worked with staff to identify practical solutions.</p> <p>The High recommendations are:</p> <ol style="list-style-type: none"> 1) An allotments strategy should be developed to give strategic direction and set measures for evaluation of benefits arising from the allotment service. 2) Undertake and document a risk assessment of each of the allotment sites. 3) Consider “amnesty days” and make staff, equipment and vehicles available to assist with removal of rubbish and hazardous materials. 4) Consider ways in which access to allotment gardening for disabled people could be enhanced. 5) Pursue the Winfarthing Avenue allotment association to complete the process of renewing the lease. <p>The ‘Medium’ recommendations include creation of a formal waiting list; procedure notes; rents policy; generic tenancy agreements; Allotments Rule Book; update tenants’ contact information; structured inspection regime; livestock register; permission required for structures to be erected; effective formal relations with Allotment Associations; seek grant funding for improvements; and transfer management of garden plots to POS.</p>	No Assurance

Audits completed in the first half of 2015/16	Overall Opinion
<p>The report was discussed at Management Team and the action plan endorsed.</p> <p>Due to the complexity of some of the solutions, a longer timescale has been allowed in the Action Plan, but a review of progress to date has been completed and is encouraging, with most recommendations being implemented. A further follow-up will be arranged for six months' time to ensure the good progress is being maintained.</p>	
<p><u>General Ledger and Budgetary Control (2014/15)</u> Report published in May 2015. There were 1 'High' and 2 'Medium' recommendations. The High recommendation related to system access which has now been complete. One Medium recommendation related to an overpayment to Alive Leisure which has now been corrected and the other referred to the ongoing reconciliation process, which will be followed up after six months.</p>	Substantial Assurance
<p><u>Resort Services</u> Report published in June 2015. There was 1 'High' recommendation relating to the raising of invoices for beach chalets using the corporate accounts receivable system. This was implemented at the time of the audit.</p>	Full Assurance
<p><u>Leisure Trust</u> Report published in July 2015. There was 1 'Medium' recommendation to continue the development of a Quality Management System to ensure consistent procedures across all venues.</p>	Substantial Assurance
<p><u>Council Tax</u> Report published in July 2015. There were 4 'Medium' and 3 'Low' recommendations. The 'Medium' recommendations referred to carrying out a sample check of work completed by a temporary member of staff; prioritising monitoring and introduce defined error rate thresholds for increasing monitoring; disable system access for staff that no longer work for the Council; and develop an appropriate and proportionate review regime for long term Council Tax Scheme cases.</p>	Substantial Assurance

Audits completed in the first half of 2015/16	Overall Opinion
<p><u>Creditors and Payments</u> Report published in June 2015. There were 2 recommendations, 1 'High' and 1 'Low'. The 'High' recommendation concerned the need to ensure that personal details are destroyed once the credit card application procedure is completed. This was implemented during the audit.</p>	Full Assurance
<p><u>Payroll</u> Report published in June 2015. There were 2 recommendations, 1 'Medium' and 1 'Low'. The Medium recommendation relates to the data received for the Alive Leisure payroll. The format necessitates some manual adjustment by the Senior Accounting Technician which is not only time-consuming but also increases the risk of errors being introduced.</p>	Full Assurance
<p><u>Annual Governance Statement (AGS) review</u> Report published in September 2015. There was 1 'Medium' recommendation. The audit was a review of the processes used to compile the Annual Governance Statement covering the year 2014/15. The recommendation made is that a training presentation is made to the Extended Management Team prior to the AGS being prepared in 2016.</p>	Substantial Assurance
<p><u>Performance and Appraisal</u> Report published in September 2015. There was 1 'Medium' recommendation to ensure a consistent description of the appraisal process across different documents.</p>	Full Assurance
<p><u>Non-Domestic Rates and Business Rate Retention Scheme</u> Report published in September 2015. There was 1 'Medium' recommendation to undertake further work to ensure all taxpayers potentially eligible for the extended Retail Relief provisions, who have not already been contacted, are identified and written to.</p>	Substantial Assurance

APPENDIX 1

Follow-up audits completed in the first half of 2015/16	Original report	Follow-up progress
<p><u>Care and Repair</u> The report published in December 2014 contained 2 'High' and 5 'Medium' recommendations. Progress has been made on all recommendations but 3 recommendations have not been fully implemented due to time constraints, a key member of staff leaving and the subsequent recruitment process. Looking at the work to be carried out it is anticipated audit will keep a watching brief on the progress of the framework contract and a new target deadline of November 2015 agreed for the remaining recommendations.</p>	<p>December 2014 Limited Assurance</p>	<p>August 2015 Adequate progress</p>

APPENDIX 2

NFI 2014/15 Exercise Data Matches Summary of Progress

(Shaded grey = Closed)

Dataset	NFI Matches report	No. matches	Comment
Payroll	66.0 : Payroll to Payroll, between bodies	2	Both investigated and no issues arising. File closed.
Payroll	80 - Payroll to Creditors same bank account	26	All investigated and no issues arising. File closed.
Payroll	81 - Payroll to Creditors address quality	14	Matches being investigated. 2 have been closed with no issues arising.
Insurance	180.6 - Insurance Claimants to Insurance Claimants	7	Matches being investigated. 1 has been closed with no issue arising.
Creditors Standing Data	701. - Duplicate creditors by creditor name	222	No work commenced.
Creditors Standing Data	702 – Duplicate creditors by address detail	176	No work commenced.
Creditors Standing Data	703 – Duplicate creditors by bank account number	41	No work commenced.
Creditors History	707.0 : Duplicate records by invoice reference, invoice amount and creditor reference	86	53 recommended matches have been investigated and closed. In 52 cases no issues arising. 1 case has been identified as an overpayment and is being pursued for recovery.
Creditors History	708.0 : Duplicate records by invoice amount and creditor reference	339	95 recommended matches have been investigated and 94 closed with no issues arising. 1 case of a duplicate payment has now been returned.
Creditors History	709.0 : VAT overpaid	4	All investigated and no issues arising. File closed.
Creditors History	710.0 : Duplicate records by creditor name, supplier invoice number and invoice amount but different creditor reference	1	No issue arising.
Creditors History	711.0 : Duplicate records by supplier invoice number and invoice amount but different creditor reference and name	24	5 recommended matches have been investigated and closed. No issues arising.
Creditors History	713.0 : Duplicate records by postcode, invoice amount but different creditor reference and supplier invoice number and invoice date	7	1 case has been investigated and closed with no issues arising.
	9999 : Multiple Occurrence report	78	No work commenced
Benefits	Matches requiring investigation have been referred to the Single Fraud Investigation Service with the DWP.		