

## AUDIT AND RISK COMMITTEE REPORT

<b>TYPE OF REPORT:</b> Audit	<b>Portfolio:</b> Performance
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<b>OPEN</b>	

**Committee:** Resources and Performance – Audit & Risk Committee  
**Date:** 28<sup>th</sup> November 2016  
**Subject:** Internal Audit Plan 2016/17 and Fraud work –Half Year progress report April to October 2016.

<b>Summary</b>	This report shows the Internal Audit activity against the Strategic Audit Plan 2016/17 and fraud work for April to October 2016
<b>Recommendation</b>	Members are asked to consider the work completed and indicate if they are satisfied with the progress against the agreed plan.

### 1.0 Introduction and Background

1.1 The Strategic Audit Plan 2016/17, endorsed by the Audit and Risk Committee on 23<sup>rd</sup> February 2016, 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 2015<sup>1</sup> 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.

1.3 Audit Committee Terms of Reference require the Committee to *'Monitor delivery of the internal audit activity, fraud investigation work and Risk Management in the Council'*.

## 2.0 Audit work for April to October 2016.

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), the external auditors, Ernst and Young and a copy placed on InSite for Audit Committee to access. 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:

- ICT Disaster Recovery
- Housing Benefits
- Business Continuity
- Creditors and Payments
- Asset Register and Inventories
- Council Tax and Business rates
- Food Hygiene, Health and Safety and Public Hygiene
- Careline
- Communications – Social Media
- Safeguarding Children
- General Ledger
- Planning Enforcement
- Attendance Management
- Recruitment follow-up
- Performance and Appraisal follow-up
- Data Protection, Freedom of Information and Environmental Information regulations follow-up
- Civics 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. Some of these reports are the result of completion of work started in 2015/16.

## 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:

- Policies
- S106/CIL
- Transparency agenda
- Housing Options and Allocations
- Contracts
- Informing the Customer
- Refuse Collection and Recycling

#### 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
- Review and update of Financial Regulations. A report on this will be presented to the Committee.
- Review of the Annual Governance Statement

#### 2.5 Changes to the Audit Plan

No changes to the audit plan are envisaged at this point.

### 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.

<b>2016/17 Status of Audits</b>	<b>Audit days used</b>	<b>Percentage of Plan (in days)</b>
Completed and reported	125	26%
In Progress	105	22%
Planned for future quarters	250	52%
<b>Total Planned Audits</b>	<b>480</b>	<b>100%</b>

#### 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 67%. This refers to the proportion of the total available time that is spent on planned audit work.

### 4.0 Work planned for November 2016 to March 2017.

4.1 As well as completing the ongoing work listed in paragraph 2.3, the following audits are planned for the second half of 2016/17:

- Partnership working
- Creditors
- Treasury Management
- Asset register and Inventories
- Payroll

- Insurance
- Capital Programme
- ICT Network Security
- ICT Change Management
- Alive Leisure/ Management
- Allotments
- Care and Repair
- Emergency Planning and Management
- Housing Standards
- Play Areas
- Internal Communications
- Licensing
- Tourism and Tourist Information

## **5.0 Investigation work April to October 2016**

### **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 1,738 matches within the “Flexible Matching Service Site” of which 1,655 have now been processed. These matches mainly consist of Council Tax Single Person Discount (SPD) review matches. The outstanding matches are for Council Tax accounts that do not match Electoral Register information that require further investigation. Additionally 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. Out of 238 accounts which have been found to have errors, 197 accounts have resulted in an increase in liability with a total of £75,237.08 additional liability being raised.

There are 2,023 matches within the “NFI 2014/15 Site” of which 2,019 have now been processed. These matches are spread over 46 different reports, covering Housing Benefit and Creditor matches. There are currently 4 ongoing investigations over 3 reports that still require processing. All ‘Recommended’ matches have now been completed. A total of £39,434.30 of fraud and error has been identified.

In total there were 3,761 matches received, 3,674 have been processed and 87 are waiting to be processed. A total of £114,671.38 fraud/error/additional revenue has been identified.

Date for the NFI 2016/17 National Exercise was uploaded to the NFI site early in October and the resulting matches will be available from January 2017 to be checked and investigated. No housing benefit data has been requested from the Council for this exercise.

## 5.2 Council Tax Reduction Scheme

The Department for Work and Pensions (DWP) investigate Housing Benefit and benefits such as Jobseekers Allowance, Income Support, Employment Support Allowance and other benefits that they process which give Council Tax Support customers a 'passported' entitlement. Meaning that this would need to be amended before Council Tax Support is affected. These are not investigated by Council staff.

Council staff need only to investigate 'non-passported' Council Tax Support claims, where the customer is not in receipt of any of the above benefits.

There are 11,786 Council Tax Support claims (passported and non-passported) in payment. However 2268 are 'non-passported' and would be considered suitable for investigation. These are claims where the customer:

- is receiving in excess of £2.50 per week
- is not receiving any type of disability entitlement (also investigated by the DWP)
- is aged between 18 to 75

The DWP send through forms known as Local Authority Exchange of Information Forms (LAEIF), these are checked by the Investigator to identify any cases that require Council Tax Support Investigations to be conducted. Additionally there are referrals received from the general public. Each referral is considered on its own merit and considered for investigation (either formal or informal), common sense is applied as to whether the case should be considered for a criminal investigation or whether to just ensure that the relevant adjustments are made to the claim details.

## 5.3 Housing Tenancy Fraud

This is an ongoing project being undertaken by the Investigator in addition to his main responsibilities. Investigations are undertaken on behalf of the registered partners (local housing associations) as and when they are identified. It has been agreed that the Investigator will conduct the first investigation free of charge for the registered partners in order to try to create a budget for them for future cases through successful Unlawful Profit Orders. A costing list has been produced for future investigations which has been based on-cost and is not intended to be for profit purposes. This decision is intended to help towards cost reductions. Future NFI data matching is to be considered to help identify potential Tenancy Fraud cases through the Housing Register and the Investigator is going to look into whether any registered partners would be interested in carrying out data matching exercises of their records.

## 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 2016 to 30 September 2016:

Housing Benefit* (inc Discretionary Housing Payments) & Council Tax Benefit	<b>£5,153.25</b>
Council Tax Reduction Scheme	<b>£1,813.66</b>
Administrative Penalties	<b>£1,014.35</b>
Council Tax	<b>£75,786.91</b>
National Non-Domestic Rates	<b>£0.00</b>
Duplicate Creditor Invoice	<b>£0.00</b>
Flood Grants awarded/claimed in error	<b>£5,000.00</b>
<b>Total fraud and error identified</b>	<b>£88,768.17</b>

\*In these cases Council Tax Support investigations and informal Housing Benefit investigations have resulted in Housing Benefit being affected and overpayments created.

## **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 2016/17	Overall Opinion
<p><u>ICT Disaster Recovery</u> Report published April 2016. 3 High and 4 Medium recommendations. The High recommendations relate to developing a Business Resumption Plan; ensuring the security of the back-up room at Fakenham; and the need to carry out stress testing of the internet connectivity at Fakenham.</p> <p>The Medium recommendations relate to developing a Backup Policy; the need to balance costs and benefits of any alternative disaster recovery site; improve security at the backup facility at Broad Street and Valentine Road.</p>	Substantial assurance
<p><u>Housing Benefits</u> Report published April 2016 1 Low recommendation in relation to Discretionary Housing Payments.</p>	Full Assurance
<p><u>Business Continuity</u> Report published July 2016. 1 High, 14 Medium and 1 Low recommendations. The High recommendation is to develop a procedure for turnover / management of stored fuel that will provide greater assurance of the fuel not degrading. This was implemented at the time of the audit.</p> <p>The Medium recommendations focused mainly on reviewing various aspects of the Bronze level BCPs and storage of documentation. Some recommendations were made in respect of improving awareness of Business Continuity with staff, and availability of alternative work sites.</p>	Substantial assurance
<p><u>Creditors and Payments</u> Report published July 2016 10 High and 4 Medium recommendations. The High recommendations are aimed at reinforcing the use of the electronic ordering and payment authorisation system, rather than paper and manual methods; methods of improving compliance with</p>	Substantial assurance



Audits completed in the first half of 2016/17	Overall Opinion
<p>Employer Status Indicator (ESI) processes; and improving the use of corporate credit cards and supporting documentation.</p> <p>The Medium recommendations are concerned with meeting invoice settlement periods and information provided for setting up a new supplier.</p>	
<p><u>Asset Register and Inventories</u> Report published July 2016 1 Medium and 1 Low recommendation. The Medium recommendation refers to reconciling the depot's list of vehicles and the corporate asset register held on Technology Forge (TF).</p>	Substantial assurance
<p><u>Council Tax and Business Rates</u> Report published July 2016 No recommendations were made. Controls were reviewed in respect of the calculation of the Tax Base and the annual bills, and the Council Tax Support and Business Rates relief schemes were examined.</p>	Full Assurance
<p><u>Food Hygiene, Health and Safety, and Public Hygiene</u> Report published July 2016 6 Medium and 2 Low recommendations were made. The Medium recommendations are to review an update all procedures and the Health &amp; Safety Service Plan; review the Annual Intervention figures and consider if the current resources are satisfactory; and ensure RIDDOR reports are correctly coded and reasons for not investigating are recorded.</p>	Substantial assurance
<p><u>Careline</u> Report published August 2016. 2 High recommendations relating to outstanding arrears and the need to retain financial documents for six years. Further audit work is to be carried out as part of the follow-up on stock records.</p>	Substantial assurance

Audits completed in the first half of 2016/17	Overall Opinion
<p><u>Communications – Social Media</u> Report published August 2016 2 Medium recommendations to update the Communications Protocol and Social Media Guidance.</p>	Substantial Assurance
<p><u>Safeguarding Children</u> Report published August 2016 4 High and 3 Medium recommendations were made. The High recommendations were:</p> <ul style="list-style-type: none"> <li>• To adopt a simple risk assessment to guide staff on the appropriate level of action required.</li> <li>• Property Services to apply the risk assessment to activities that are the subject of leases or licences from the Council.</li> <li>• Apply the risk assessment to groups applying for funding or support from the Council</li> <li>• Ensure contracts are let in accordance with the risk assessment.</li> </ul> <p>The Medium recommendations include the production of generic guidance that can be provided to medium risk activities; inclusion of safeguarding considerations in the guidance templates for event managers; and require horse-riding establishments to have safeguarding procedures in place as part of the licensing process.</p>	Substantial Assurance
<p><u>General Ledger</u> Report published September 2016 1 High and 1 Low recommendations. The High recommendation was in connection with the inter company accounts and the care needed when raising purchase orders.</p>	Substantial Assurance
<p><u>Planning Enforcement</u> Report issued September 2016 1 Medium and 1 Low recommendation. The Medium recommendation was to review old cases on a systematic basis to ensure that none are overlooked.</p> <p>A further Medium recommendation was identified in relation to monitoring of the collection Court costs and compensation, but this is a broader issues than just Planning Enforcement, and requires further work on the</p>	Substantial Assurance

<b>Audits completed in the first half of 2016/17</b>	<b>Overall Opinion</b>
part of the auditor to establish a corporate approach. This will be the subject of a separate audit report in due course.	
<u>Attendance Management</u> Report published October 2016 1 High and 2 Medium recommendations. The High recommendation concerns the late completion of Return to Work forms by some service managers. The Medium recommendations refer to some high levels of TOIL being accrued and not reduced; and to the use of the 'Fit for Work' scheme offered by the DWP.	Substantial Assurance

**APPENDIX 1**

Follow-up audits completed in the first half of 2016/17	Original report	Follow-up progress
<p><u>Recruitment</u> The report published in September 2015 contained 2 Medium recommendations, one of which had been implemented and the other was ongoing and has a new deadline of end of December 2016.</p>	<p>September 2015 Full Assurance</p>	<p>May 2016 Adequate</p>
<p><u>Performance and Appraisal</u> The report published in September 2015 contained 1 Medium recommendation, which has been completed satisfactorily.</p>	<p>September 2015 Full Assurance</p>	<p>May 2016 Adequate</p>
<p><u>Data Protection, Freedom of Information and Environmental Information Regulations</u> The report published in January 2016 contained 7 Medium and 3 Low recommendations. Of these 2 Medium recommendations remained outstanding and a new deadline of November 2016 was agreed.</p>	<p>January 2016 Substantial Assurance</p>	<p>June 2016 Good</p>
<p><u>Civics</u> The report published in October 2015 contained 1 Medium recommendation, which has been implemented satisfactorily.</p>	<p>October 2015 Full Assurance</p>	<p>May 2016 Very Good</p>

## APPENDIX 2

### NFI 2014/15 Exercise Data Matches Summary of Progress

(Shaded grey = Closed)

<b>Dataset</b>	<b>NFI Matches report</b>	<b>No. matches</b>	<b>Comment</b>
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	All investigated and no issues arising. File closed.
Insurance	180.6 - Insurance Claimants to Insurance Claimants	7	All investigated and no issues arising. File closed.
Creditors Standing Data	701. - Duplicate creditors by creditor name	222	221 matches have been investigated and closed with no issues arising. 1 match is being pursued for recovery of overpayment.
Creditors Standing Data	702 – Duplicate creditors by address detail	176	All investigated and no issues arising. File closed.
Creditors Standing Data	703 – Duplicate creditors by bank account number	41	All investigated and no issues arising. File closed.
Creditors History	707.0 : Duplicate records by invoice reference, invoice amount and creditor reference	86	53 recommended matches have been investigated and closed. In 51 cases no issues arising. 2 cases were identified as overpayments, 1 has been recovered and 1 is being pursued.
Creditors History	708.0 : Duplicate records by invoice amount and creditor reference	339	All investigated and 2 overpayments were identified, both of which have been recovered. File closed
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	All investigated and 1 overpayment identified, which is has been recovered. File closed.
Creditors History	711.0 : Duplicate records by supplier invoice number and invoice amount but different creditor reference and name	24	All investigated and no issues arising. File closed.
Creditors History	713.0 : Duplicate records by postcode, invoice amount but different creditor reference and supplier invoice number and invoice date	7	All investigated and no issues arising. File closed.
Benefits	Matches requiring investigation have been referred to the Single Fraud Investigation Service with the DWP.		