

Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

Audit Committee

on

25th September 2013

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Agenda
Item No.

8

Summary Audit Progress and Counter Fraud Update Report

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To update the Audit Committee on the progress made in delivering the:

- Internal Audit Strategy for 2013/14
- Council's Anti Fraud and Corruption Strategy.

2. Recommendation

2.1 **The Audit Committee:**

- **notes the progress made in delivering the Internal Audit Strategy for 2013/14 and the Council's Anti Fraud and Corruption Strategy**
- **approves the Internal Audit Charter.**

3. Internal Audit Performance Targets

3.1 **Appendix 1** contains details of performance against the 2013/14 targets which includes completion of the outstanding 2012/13 audits (see 4.2 below). In summary this shows that:

- productivity is above target and time lost through sickness absence remains low
- the audit plan is being delivered in line with expectations
- overall clients remain satisfied with the service provided and the quality of the work. The two issues arising during this period being:
 - concern about the timing of the housing rents system audit last year, so it has been profiled for an earlier start this year
 - the extent to which a contractor had been briefed on the subject matter being audited in one instance and the impact that had on the client.

4. Audit Plans

4.1 **Appendix 2** shows the current status of audits planned to be delivered in the 2013/14 financial year where an auditor has been allocated to the job and work has started. Those left blank are still to commence.

- 4.2 As previously reported, some of the outstanding reviews from the 2012/13 were not started until April 2013. They have also been included in this appendix as they form part of the work to be delivered during this period.
- 4.3 The focus since April 2013 has been to:
- complete the 2012/13 financial systems work on the 10 key systems and finalise the actions plans
 - complete the work carried forward from 2012/13
 - plan and start the first tranche of work from the 2013/14 audit plan.
- 4.4 At the time of reporting, the financial systems work for 2012/13 has been completed. The audit team is to be commended for:
- its work over the last 18 months in helping service teams design appropriate control frameworks within a number of these financial systems
 - issuing final reports by June 2013 for all but one financial system.
- 4.5 The risk based work carried forward from 2012/13 is substantially complete.
- 4.6 Terms of Reference have been agreed for many of the 2013/14 audits. Start dates:
- are in the process of being agreed for the field work to commence where this has not already been done
 - have been agreed with all the schools to be audited this year.
- 4.7 Work on the two grant claims due at the end of September is nearly complete. They will be available for the Head of Internal Audit and Chief Executive (where necessary) to sign in the next few weeks.
- 4.8 The team have had three unplanned reviews since April which have been resourced from the 2013/14 contingency budget. There is still sufficient in house plus bought in resource to deliver the current audit programme.
- 4.9 **Appendix 3** summarises the key themes arising from or current position in relation to:
- Accounts Receivable, Social Care Debtors system
 - Agresso Project Implementation and Change Management
 - Employee Relations review.
- 4.10 In addition to this:
- an investigation into a complaint regarding the process adopted when tendering for the CCTV Control Room Relocation Contract has been concluded. No evidence was found to substantiate any of the concerns raised
 - when auditing the claim for funding under the Troubled Families Programme, opportunities to improve the evidence trail of compliance with the scheme's criteria for the cases to be submitted were identified. The team are continuing to work with the service to ensure this process is robust going forward.

Resourcing

- 4.11 The service is still being resourced by a mixture of in house (60%) and bought in resource (40%) which is covering three vacancies as well as providing specialist IT services. The graduate trainee appointed in January 2013 is now a permanent member of staff having successfully completed her probation period.

5. Implementing recommendations made

- 5.1 The reports followed up this quarter are:

| REPORT NAME | AGREED | | | OUTSTANDING | | | |
|--------------------------|--------|---|-------|-------------|---|-----|-------|
| | H | M | Total | H | M | N/A | Total |
| Home to School Transport | 8 | 6 | 14 | 2 | 1 | 0 | 3 |
| Library Services | 1 | 0 | 1 | 1 | 0 | 0 | 1 |

N/A = no longer applicable

- 5.2 Home to School Transport. Three out of fourteen recommendations have been confirmed as still outstanding. In all three instances, progress has been made towards implementing the recommendation in that work is underway to:

- determine whether the current mapping system used to calculate home to school routes is fit for purpose (high priority)
- expand upon procedure notes relating to the authorisation of urgent requests for Home to School Transport (medium priority)
- formally approve the service level agreement (SLA) between the Directorate for People and the Passenger Transport Team (high priority).

- 5.3 Library Services. This recommendation relates to setting performance indicators to monitor service delivery. It will be implemented later this year reflecting the performance standards required of the new central library service when it opens shortly.

6. Public Sector Internal Audit Standards, Audit Charter

- 6.1 Attached at **Appendix 4** is an Audit Charter which complies with the requirements of the new Public Sector Internal Audit Standards (the Standards). The essence of what the Audit Charter covers is similar to that of the Terms of Reference which it replaces. The two new requirements included in the Charter have been highlighted in bold for ease of reference and relate to the need:

- for the Chief Executive and Chair of the Audit Committee to contribute to the Head of Internal Audit's performance review
- to define who will discharge the roles of 'senior management' and 'board' (which means the committee acting as 'those charged with governance') in the context of these Standards. These will continue to be Corporate Management Team and the Audit Committee respectively.

- 6.2 The Standards require the Head of Internal Audit annual audit opinion to cover governance, risk management and control when commenting on the overall system of internal control, which has not been stated explicitly before.

6.3 The team will retain an Audit Strategy which will not change fundamentally but will be updated later in the year if required, once the assessment against the new Standards has been completed.

7. Counter Fraud Activity

7.1 In the last few months, the Counter Fraud Team has been contributing to the update of the Employee Code of Conduct which is being undertaken by the HR Team Leader, Policy & Strategy. This includes updated sections covering declaration of interests as well as gifts and hospitality.

7.2 In June 2013, an exercise was undertaken to identify persons registered as deceased who had been issued a Southend-on-Sea Borough Council Blue Badge which had not been returned. The next of kin were contacted in 29 cases. They were asked to complete and return a declaration setting out what had happened to the Blue Badge. As a result of this:

- 16 stated it had already been returned or destroyed
- seven were sent back with the declaration
- six have not responded.

7.3 A note has been made on the system for the cases where there has been no response. It has not been possible to verify the accuracy of the next of kin contact details in these cases as many live outside the area.

7.4 **Appendix 5** sets out the current position with regard to investigating data matches produced by the Audit Commission's National Fraud Initiative. As of 13 August 2013 work has been completed and errors on relevant systems corrected (where necessary) with regards to the following matches:

- Blue Badges
- Concessionary Travel Passes
- Private Residential Care Homes
- Creditors.

7.5 Work is still underway to clear outstanding matches or investigate potential frauds in the other areas included in this exercise.

7.6 The number of potential housing tenancy fraud referrals is increasing. To date:

- 22 allegations have been received
- four properties have been returned
- 15 cases are in progress.

7.7 For the financial year 2013/14 so far, the Counter Fraud Team have received 302 referrals in respect of Housing and Council Tax Benefit and Department for Works and Pension Benefits. Of these, the top three types of **'alleged'** benefit frauds were as follows:

- 82 living together
- 42 undeclared income from earnings
- 36 non-residences.

7.8 As at 16 August 2013, in respect of Housing and Council Tax Benefit and Department for Works and Pension Benefits:

- eight Summons have been issued for court action
 - eight Administration Penalties have been agreed to the value of £8,182.64, which result in either a 30% or 50% fine based on the level of the identified overpayment
 - three Formal Cautions have been issued for admittance of an offence
 - there have been 11 prosecutions
 - 105 cases have been investigated and closed
 - overpayments have been identified totalling £206,775.07.
- 7.9 The Counter Fraud Team is on target to meet the Housing and Council benefit fraud targets for 2013/14 which are to achieve 30 Sanctions and Close 200 investigations by March 2014.
- 7.10 The team is also working with the services involved in dealing with housing applications, schools admissions, issuing Resident and Visitors Parking Permits and allocating sports grants to ensure appropriate controls are in place to mitigate potential fraud risks. These issues have arisen as a result of referrals made to the team which are being investigated. They will also be picked up by the Internal Audit team where audits are planned in these service areas during the year.
- 7.11 The fraud awareness sessions to be delivered by Jim Gee from BDO have been booked for September and December. The advanced data mining exercise to analyse accounts payable data and identify potential fraud and fraud risks is in progress. The results of this work will be reported to the Audit Committee in due course.
- 7.12 The Council has entered into a Service Level Agreement with Castle Point Borough Council to provide Corporate Fraud Manager cover on a part time basis, for a period of up to six months starting on 19th August 2013. Some research is also being undertaken into working practices operated by other councils in this area, including fraud risk assessment models used. The results of this work will be reported to the Audit Committee in due course.

8. Corporate Implications

8.1 Contribution to Council's Aims and Priorities

Audit and counter fraud work contributes to the delivery of all corporate Aims and Priorities.

8.2 Financial Implications

The audit plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

Proactive fraud and corruption audit work acts as a deterrent against financial impropriety and it might identify financial loss and loss of assets.

8.3 Legal Implications

The Accounts and Audit (England) Regulations 2011 (the Regulations) Section 6 states:

1. A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
2. Any officer or member of a relevant body must, if the body requires:
 - a. make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
 - b. supply the body with such information and explanation as that body considers necessary for that purpose.
3. A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.
4. The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control by the relevant committee or body this has been delegated to.

From 1 April 2013, internal audit services are required to comply with the Public Sector Internal Audit Standards (the Standards).

A formal audit plan is required to ensure that Internal Audit coverage is adequate and effective; otherwise the Council will be in breach of its statutory responsibilities under the Regulations. The Standards require that progress against the audit plan is regularly reported to Members. This report contributes to discharging this duty.

The Accounts and Audit (England) Regulations 2011 section 4 (2) require that:

The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes the arrangements for the management of risk.

Therefore failure to do so would be a breach of a statutory duty.

8.4 People and Property Implications

People and property issues that are relevant to delivering the Audit Plan are raised in the body of the report.

Properties could be recovered through the investigation of housing tenancy fraud.

8.5 Consultation

The audit risk assessment and the plan are periodically discussed with the Chief Executive, Corporate Directors / Director, and Heads of Service before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed and agreed with the relevant Corporate Directors / Director and Heads of Service before being finalised.

8.6 Equalities Impact Assessment

The relevance of equality and diversity is considered during the initial planning stage of the audit before the Terms of Reference are agreed.

Equality Impact Assessments are completed on relevant policy / strategy documents whenever they are updated.

8.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework which may impact of the Council's ability to deliver its corporate aims and priorities.

The main risk the team is currently managing which could impact on its ability to complete the Audit Plan is the possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards. Additional time has been built into the Audit Plan this year for managing this contract.

Failure to operate a strong anti fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity. Although risk cannot be eliminated from its activities, implementing the relevant fraud related policies / strategies will enable the Council to manage this more effectively.

8.8 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service periodically.

An effective Counter Fraud Service should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

8.9 Community Safety Implications and Environmental Impact

These issues are only considered if relevant to a specific audit review.

9. Background Papers

- The Accounts and Audit (England) Regulations 2011
- Public Sector Internal Audit Standards
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010
- CIPFA: Audit Committee Practical Guidance for Local Authorities and A toolkit for Local Authority Audit Committees
- Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Delivering Good Governance in Local Government - Framework.
- Fighting Fraud locally, The Local Government Fraud Strategy
- Audit Commission Publication: Protecting the Public Purse: Local Government Fighting Fraud.

10. Appendices

- **Appendix 1: Internal Audit Performance Indicators 2013/14**
- **Appendix 2: Internal Audit Plan 2013/14**
- **Appendix 3: Key Themes Arising from Audit Reviews**

- **Appendix 4: Internal Audit Charter**
- **Appendix 5: 2012 Audit Commission National Fraud Initiative Data Matches Update as at 13 August 2013**