

# Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

**Audit Committee**

on

**24th September 2014**

Report prepared by: Linda Everard, Head of Internal Audit

Agenda  
Item No.

**6**

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## Internal Audit and Counter Fraud & Investigation Services Quarterly Performance Report

**Executive Councillor – Councillor Ron Woodley**

***A Part 1 Public Agenda Item***

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### **1. Purpose of Report**

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

- Internal Audit Strategy for 2014/15
- Council's Anti Fraud and Corruption Strategy.

### **2. Recommendations**

2.1 **The Audit Committee notes the progress made in delivering the:**

- **2014/15 Internal Audit Strategy**
- **Council's Anti Fraud and Corruption Strategy.**

**The Audit Committee approve the amendments made to the Audit Plan.**

### **3. Internal Audit Plan Status (Appendix 1)**

3.1 Since June, when the 2013/14 Head of Internal Audit Annual Report was produced, the focus has been on starting work on the 2014/15 Audit Plan.

3.2 The service continues to use a significant amount of resources from an external framework contract to deliver aspects of the work. Therefore time has been required during this period to establish long-term working relationships with a new supplier. As a result, a large number of audits are in the planning or work in progress stage.

3.3 Additional audits added to the plan (yet to be undertaken) since it was last reported to the Audit Committee include:

- reviewing the corporate procurement team and supporting the refresh of the contract management framework, which is being done in conjunction with the implementation of a new E-Procurement system (DueNorth)
- challenging the in-house evaluation of the proposal to create an Essex-wide Building Control Community Interest Company.

- 3.4 The programme of schools audits have been arranged for the year as have visits to schools some audited in 2013/14, to check that recommendations made have been properly implemented. When Cecil Jones College is revisited later in the year (dates currently being agreed), the work programme will include the tests not completed during the original audit.
- 3.5 Planning work has also started for the financial systems audit work which will commence in October 2014.
- 3.6 The service currently has sufficient resources (through a combination of in-house and external staff) to deliver the Audit Plan for the year by the end of May 2015, when the Head of Internal Audit's Annual Report is produced. The 2014/15 work plan takes into account the recent recruitment of a new trainee auditor who joined the team in August 2014 and the management time necessary to support their development.

#### 4. Work Completed

4.1 Work completed during this period includes:

- providing advice to the Schools Finance Manager (that will subsequently be distributed to all schools) on the controls needed to ensure purchases and sales through eBay and associated financial transactions using PayPal are secure, appropriate and demonstrate value for money
- supporting one Counter Fraud and Investigation Team investigation by gathering and analysing information relating to a contract.

#### 5. Implementing Recommendations

5.1 Internal Audit decides which action plans to revisit on a risk basis. Where it is determined that further work is required to ensure recommendations have been properly implemented, this will involve re-testing to ensure this is the case and the strengthened control arrangements are firmly established in the day to day running of the service.

5.2 The report followed up by Internal Audit this quarter is:

Report Name and Date Original Report Issued		Agreed			Outstanding			
		H	M	Total	H	M	N/A	Total
Edwards Hall School	Sept 2013	6	11	17	1	1	0	2

5.3 The school has made very good progress in implementing the recommendations. The outstanding recommendations are being actively addressed and are both due to be implemented by mid-October. The high priority recommendation will be implemented on 24 September 2014 when the Governing Body meets to formally agree its forward plan (i.e. setting out which reports it will receive and decisions it will make at each meeting to demonstrate it will effectively fulfil its terms of reference).

## **6. Internal Audit Performance Targets (Appendix 2)**

6.1 The Accounts and Audit (England) Regulations 2011, require the Council to maintain an adequate and effective internal audit service that operates in accordance with proper internal audit practices.

6.2 In order to do this:

- the service needs to be able to demonstrate that:
  - its operating arrangements comply with the UK Public Sector Internal Audit Standards (the Standards) and auditors comply with them when delivering individual audits (Professional Compliance)
  - it delivers sufficient work during the year, covering key risks, controls and the governance framework to support the Head of Internal Audit's annual audit opinion (Coverage)
  - it makes appropriate recommendations to improve the Council's risk management, control and governance arrangements (Professional Compliance)
  - its costs are competitive (Cost)
  - staff are spending the maximum days possible on delivering the audit plan (Productivity).
- management need to have appropriate arrangements in place to ensure recommendations agreed, are implemented, properly and in a timely manner (Professional Compliance).

6.3 The suite of indicators reported on in Appendix 2, if delivered, provide evidence the service is meeting these requirements and therefore, is not only adequate and effective but also adds value and helps the Council improve its operations.

6.4 Coverage and productivity is broadly in line with performance targets. Actual performance is reflecting the impact of holidays, bedding in a new contractor, work on the audit manual, supporting a new member of staff and the loss of the Business Support Officer on the remainder of the audit team in a relatively short period of time. All of these activities have been planned for in determining the resources available to deliver audit work this year, so actual performance in these areas should improve later in the year.

## **7. Counter Fraud & Investigation Work Programme (Appendix 3)**

7.1 The programme is split into three work streams, which are:

- overall arrangements
- proactive and fraud awareness exercises
- investigations.

7.2 The amount of time that can be allocated to the first two work streams is impacted upon by the number and complexity of the referrals received that then turn into full investigations and the overall capacity of the team.

7.3 So given the resources currently available to the Counter Fraud & Investigation Team (CF&IT), the focus for the remainder of the year, will be on:

- completing the work outlined in the overall arrangements work stream

- setting up a specific project to work collaboratively with others to target housing tenancy fraud
- delivering the planned Blue Badge exercise
- providing the relevant information to the Audit Commission for the next National Fraud Initiative exercise.

7.4 Should additional capacity become available, priority will be given to developing pro-active work programmes for procurement / contract letting and management and social care direct payments.

## **8. Counter Fraud & Investigation Case Summary (Appendix 4)**

8.1 In the first four and half months of the financial year, the CF&IT has received 459 referrals. Of those that have been accepted as valid potential cases, a third have been dealt with and the majority of remainder are under investigation.

8.2 Appendix 4 also now sets out the outcomes achieved in each of the fraud areas (although it needs to be noted that these are not included in the figures until the case file has been closed).

8.3 As reported previously, the three top types of 'alleged' benefit fraud remain:

- living with an undeclared partner (76 referrals)
- undeclared earnings (42 referrals)
- undeclared capital (41 referrals).

## **9. Corporate Implications**

9.1 Contribution to Council's Aims and Priorities

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

9.2 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.

Operating a zero tolerance policy to fraud, corruption, bribery, and misappropriation empowers to service to use all possible tools at its disposal to recover losses incurred by the Council.

9.3 Legal Implications

The Council is required, by the Accounts and Audit (England) Regulations 2011 (the Regulations) Section 6, to maintain an adequate and effective internal audit function, that complies with relevant professional standards and report upon this annually to the Audit Committee. This is covered in the Head of Internal Audit's Annual report.

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. Therefore this report discharges that 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...'

Ensuring compliance with the Fighting Fraud Locally Strategy by delivering the Corporate CF&I Plan will enable the Council to meet this statutory requirement.

#### 9.4 People and Property Implications

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

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings, prosecution or referral to another law enforcement agency
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

Properties could be recovered through the detection of housing tenancy fraud with assets recovered as a result of criminal activity.

#### 9.5 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.

#### 9.6 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.

#### 9.7 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 continues to manage 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.

## 9.8 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.

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

## 9.9 Community Safety Implications and Environmental Impact

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

## 10. Background Papers

- The Accounts and Audit (England) Regulations 2011
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010
- CIPFA: Audit Committees, Practical Guidance for Local Authorities and Police 2013
- 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.

## 11. Appendices

- **Appendix 1: Internal Audit Plan 2014/15**
- **Appendix 2: Internal Audit Performance Indicators 2014/15 as at 20 August 2014**
- **Appendix 3: Counter Fraud & Investigation Service Work Programme 2014/15**
- **Appendix 4: Counter Fraud & Investigation Team Case Summary 1/4/2014 to 19/8/2014**