

Report to Audit Committee

Audit and Counter Fraud Progress Report

Portfolio Holder: Councillor Abdul Jabbar MBE – Deputy Leader and Cabinet Member Finance and Corporate Resources

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Reason for Decision

To provide Members with the progress report for the first eight months of the financial year 2018/19 on work undertaken by the Internal Audit and Counter Fraud Team and report back to the Audit Committee on the matters required by the Code of Practice for Internal Audit.

Executive Summary

The report also summarises the performance by the Audit and Counter Fraud Team for the first eight months of 2018/19; the key performance highlights include:

- 26 Final Internal Audit Reports have been issued since 1 April 2018 (annual target of 80);
 - an additional 14 Fundamental Financial System Audit reports were issued on 19 December 2018, as part of the support to the year-end financial close down of the accounts;
 - Audit assurance and support for the Council's corporate "Smart" project to acquire the Unity Partnership Ltd, including supporting the development of governance arrangements and the company's financial system;
 - certification reviews relating to compliance with the terms and conditions of grant funding have been carried out for six separate grants, with assurance provided over total expenditure of £1.114m. This includes £941,450 for grant certification carried out in the People and Place Directorate, and £172,501 for the Disabilities Facilities Grant in Adults Social Care;
 - Counter Fraud referrals reviewed in key areas such as Council Tax Reduction (CTR) and Housing Benefit fraud and error, and overpayments identified as part of CTR investigations;
 - investigations around Blue Badge misappropriation, employee reviews, Free School Meals, Council Tax Discount Fraud and Direct Payment Fraud; and
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- the Direct Payments Audit Team has carried out 378 reviews across Adults Social Care and Children's services and against a target of 600 and identified approximately £0.545m to be recovered in overpayments, inappropriate use and financial contributions.

It is anticipated that the Team will deliver results for its agreed performance indicators, in line with its annual targets.

Recommendations

Members are requested to note the 2018/19 Progress Report for the first eight months of the financial year 2018/19.



2018/19 Audit and Counter Fraud Progress Report

1. Background

1.1 This report summarises the work carried out in the first eight months of 2018/19 by the Audit and Counter Fraud Team and the team's key performance against agreed performance indicators.

1.2 The main content of the report is structured as follows:

- Section 2: 2018/19 Audit and Counter Fraud Plan: Progress Update
- Section 3: Corporate Counter Fraud
- Section 4: Audit of Direct Payments

2. 2018/19 Audit and Counter Fraud Plan: Progress Update

2.1 The priorities for the 2018/19 Audit and Counter Fraud Plan are to:

- Complete the Fundamental Financial Systems (FFS) work on 2018/19 transactions and work to support the 2018/19 audit of the financial accounts. In accordance with agreed close-down plans, the FFS audits are being undertaken in two stages to provide earlier assurance:
 - **Interim (Stage 1)** Audits, which commenced in October 2018. These audits are now complete, the Final Interim Reports were issued on 19 December 2018; and
 - **Final (Stage 2)** Audits which will commence in February 2019, and will be completed by 31 March 2019.
- A process of "Continuous Audit" for a number of key financial systems. This includes Payroll and Adults Financial Systems.
- Provide assurance that the systems and procedures in place within Oldham are financially sound and in line with best practice.
- Complete audits which are classed as "high" in the Annual Audit Needs Assessment.
- Undertake a programme of counter fraud work to identify fraud risks within the corporate systems.
- Undertake specific fraud investigations on Council Tax Reduction and Corporate Fraud.
- Deliver the financial audits of Personal Budgets in line with service plans and targets.

2.2 Members of this Committee agreed the 2018/19 Audit and Counter Fraud Plan on 19 March 2018. This report is the second performance report for 2018/19, covering the first eight months of 2018/19.

2.3 The Team's key performance indicators are discussed in the following paragraphs in line with the following targets, which are to:

- finalise 80 reports during 2018/19;
- finalise audit reports within 10 days of completion of the fieldwork; and
- achieve Customer Service Feedback of 4.8, out of a maximum 5.

2.4 The Audit and Counter Fraud Team have issued 26 Final Audit Reports (three reports covered postal vote data reviews) since 1 April 2018 to 30 November 2018, with a further 14 final reports around the financial systems issued on 19 December 2018. This year, members

of the team have continued to support the corporate “Smart” project (the acquisition of the Unity Partnership Ltd), as follows:

- designing and establishing appropriate governance arrangements; and
- supporting the development of finance processes and systems.

2.5 The average time taken to complete a review from end of field work to final report is 10 days but customer feedback is being captured. If provided, this will be reported verbally at the Audit Committee meeting.

2.6 In 2018/19, there is a newly agreed Corporate Performance Indicator which is reported using the Corvu system, which is managed by the Business Intelligence Team. The indicator is:

- % of Audit Opinions which are less than “Adequate” \leq 15% target.

2.7 In quarter 3, the Council’s actual result was 12.5%, which achieved the agreed target. It is anticipated that the Council will continue to achieve this target by the end of the year, performance against the target will be monitored and arrangements will be made by the Head of Corporate Governance to support managers across the Council as required.

2.8 The 26 reports issued by the Team are detailed in **Appendix 1**, for completeness a further 14 final reports have been included around the fundamental financial audits, as follows:

- verification and validation of postal votes during the Elections;
- operational and Business audits;
- fundamental financial system reviews;
- support for a corporate project;
- external client / group company audits; and
- grant audit certification reviews.

2.9 The process to procure a new Audit Management System is well underway in accordance with the Council’s Contract Procedure Rules. This process is currently at the evaluation stage for prospective suppliers. Further updates will be reported to the Audit Committee around the outcome of the evaluation.

3. Corporate Counter Fraud

3.1 The Corporate Counter Fraud Team has also performed well. The key highlights are set out in the Table 1 below:

Table 1: Counter Fraud Performance 1 April 2018 to 30 November 2018

| Performance Indicator | 2018/19 Target | 2018/19 1 April 2018 to 30 November 2018 | | | Total |
|---|-----------------|---|----------|-----------|-----------------|
| | | Q1 | Q2 | Oct - Nov | |
| Volumes: | | | | | |
| • Corporate Cases - Positive Results | 50 | 37 | 5 | 5 | 47 |
| • CTR cases amended as a result of an investigation | 100 | 47 | 23 | 16 | 86 |
| • Number of cases referred to SFIS | 150 | 68 | 37 | 15 | 120 |
| Financial Outcomes: | | | | | |
| • Fraud and Error Overpayments identified as part of Corporate Cases | £25,000 | £33,489 | £2,597 | £2,020 | £38,106 |
| • HB Fraud and Error Overpayments identified as part of a CTR investigation | £250,000 | £174,000 | £107,973 | £50,151 | £332,125 |
| • CTR Fraud and Error Overpayments identified | £50,000 | £34,725 | £24,575 | £13,332 | £72,633 |

3.2 The team is on track to deliver its annual targets and has identified fraud and error totalling c. £0.442m, which comprises:

- £0.038m in fraud and errors overpayments;
- £0.332m of Housing Benefit Fraud and Error Overpayments identified as part of the CTR investigations; and
- £0.073m of Council Tax Reduction (CTR) overpayments.

3.3 In addition, 120 allegations of suspected welfare fraud and error have been reported to the Department for Work and Pensions and the team has delivered 47 positive cases of non CTR fraud/misuse including Blue Badge Fraud, internal cases, Free School Meals, Council Tax Discount Fraud and Direct Payment Fraud.

3.4 Given the continued success of the team to exceed its annual targets, the current targets will be reviewed as part of the planning for 2019/20. In line with the priorities agreed by the Audit Committee, the Counter Fraud Team will also continue to:

- collaborate with the Internal Audit Team;
- ensure the preparation and delivery of appropriate Counter Fraud training across the Council; and
- ensure the delivery of the Internal Audit and Counter Fraud Plan 2018/2019.

4. Audit of Direct Payments

4.1 The Direct Payment Audit team verifies that spending of the Direct Payment is in line with the agreed Support Plan and that client contributions to their care have been made. This team has a dual role as a compensating control, tasked with the responsibility to recover overpayments/unrecovered client contributions and also to ensure the client is spending the agreed funds in accordance with the agreed Support Plan.

4.2 The Team's results to the end of November 2018, are shown in Table 2 below:

Table 2: Direct Payments Audit Team - Adults and Children's Services

| Performance Indicator/Output Measure | 2018/19 Target | 2018/19 Quarter 1: 1 April 2018 to 30 November 2018 | | | Total | % of Target |
|---|-----------------|--|-----------------|-----------------|-----------------|-------------|
| | | Q1 | Q2 | Oct - Nov | | |
| Children's Direct Payment Audits: | | | | | | |
| Number of audits conducted | 100 | 6 | 24 | 9 | 39 | 39% |
| Funds requested during Audit including Financial Assessment | £100,000 | £14,720 | £24,466 | £15,793 | £54,980 | 54.9% |
| Adults' Direct Payment Audits: | | | | | | |
| Number of audits conducted | 500 | 84 | 111 | 144 | 339 | 68% |
| Funds requested during Audit including Financial Assessment | £750,000 | £152,361 | £87,236 | £250,410 | £490,008 | 65% |
| Number of Direct Payment Audits | 600 | 90 | 135 | 153 | 378 | 63% |
| Financial Outcomes from Direct Payment Audits | £850,000 | £167,081 | £111,702 | £266,203 | £544,988 | 64% |

4.3 Following the Direct Payment Audit, an invoice is raised to recover any under spends identified and/or any expenditure which has not been incurred in accordance with the agreed support plan, or misuse of the Direct Payments.

4.4 In summary, by the 30 November 2018, the team has carried out 378 Direct Payment Audits against a target of 600 and identified approximately £0.545m to be recovered in overpayments, inappropriate use and financial contributions. Whilst the team has made a slightly slower start to the year, it is anticipated that annual targets will be achieved. However, the team continues to work with Internal Audit and service colleagues to develop the processes and controls, to minimise overpayments and inappropriate use.

5 Options/Alternatives

5.1 The Audit Committee can either choose to accept and note the progress achieved and performance by the Audit and Counter Fraud Team, or not do so.

6 Preferred Option

6.1 The preferred option is that the Audit Committee accepts and notes the progress achieved and performance by the Audit and Counter Fraud Team.

- 7 **Consultation**
 - 7.1 N/A.
 - 8 **Financial Implications**
 - 8.1 N/A.
 - 9 **Legal Services Comments**
 - 9.1 N/A.
 - 10 **Cooperative Agenda**
 - 10.1 N/A.
 - 11 **Human Resources Comments**
 - 11.1 N/A.
 - 12 **Risk Assessments**
 - 12.1 The 2018/19 Audit and Counter Fraud Plan is prepared, reviewed and updated using a risk based approach. The terms of reference of each agreed project are also determined using a risk based methodology.
 - 13 **IT Implications**
 - 13.1 N/A.
 - 14 **Property Implications**
 - 14.1 N/A.
 - 15 **Procurement Implications**
 - 15.1 N/A.
 - 16 **Environmental and Health & Safety Implications**
 - 16.1 N/A.
 - 17 **Equity, Community Cohesion and Crime Implication**
 - 17.1 N/A
 - 18 **Equality Impact Assessment Completed**
 - 18.1 No
 - 19 **Forward Plan Reference**
 - 19.1 N/A.
 - 20 **Key Decision**
 - 20.1 No.
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21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act.

File Ref: Background papers are included as Appendices

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22 **Appendices**

22.1 The following Appendices are available to support this Report:

- **Appendix 1:** Final Reports issued between 1 April 2018 and 30 November 2018 with the addition of the Fundamental Financial System Reports issued in December 2018.

Internal Audit and Counter Fraud 2018/19:

Summary of Final Reports 1 April to 31 December 2018

| Report Ref | Directorate | Audit Review/CF Report | Report/Briefing Note | Final Report Date | Opinion |
|-------------|---------------------------------|---|----------------------|-------------------|------------|
| 1(a) & 1(b) | Corporate & Commercial Services | Local Election 3rd May 2018 - Postal Vote Data Review – 1 and 2 | Briefing Note 1 | 29/04/2018 | Advisory |
| | Corporate & Commercial Services | | Briefing Note 2 | 29/04/2018 | Advisory |
| 2 | Corporate & Commercial Services | Local Election 3rd May 2018 - Postal Vote Verification Review | Briefing Note | 29/05/2018 | Advisory |
| 3 | People and Place | Children Services Cash Review | Report | 19/06/2018 | Inadequate |
| 4 | Corporate & Commercial Services | Smart - UPL Interim Finance & Agresso Processes | Briefing Note | 07/06/2018 | Advisory |
| 5 | Health & ASC Community Services | Disabled Facilities Grant | Assurance Statement | 08/06/2018 | Advisory |
| 6 | Corporate & Commercial Services | Smart – UPL Governance pre acquisition | Briefing Note | 02/07/2018 | Advisory |
| 7 | People and Place | Troubled Families System Assurance Review | Report | 17/07/2018 | Adequate |
| 8 | People and Place | Local Growth Deal | Assurance Statement | 23/07/2018 | Advisory |
| 9 | Health & ASC Community Services | Supported Living Establishment 1 | Report | 31/07/2018 | Inadequate |
| 10 | Health & ASC Community Services | Supported Living Establishment 2 | Report | 31/07/2018 | Adequate |
| 11 | People and Place | School | Report | 10/08/2018 | Adequate |
| 12 | People and Place | Benefits Realisation | Report | 14/08/2018 | Inadequate |
| 13 | People and Place | FoodChains 4 EU | Assurance Statement | 27/08/2018 | Advisory |
| 14 | People and Place | COALESCCE EU | Assurance Statement | 27/08/2018 | Advisory |
| 15 | People and Place | INNOVAFOSTER | Assurance Statement | 27/08/2018 | Advisory |
| 16 | People and Place | Confidential Briefing Paper | Briefing Note | 06/09/2018 | Advisory |
| 17 | People and Place | Pot Hole Action Fund Certificate of Compliance | Assurance Statement | 13/09/2018 | Advisory |
| 18 | People and Place | Troubled Families System Assurance Review - follow up (MCC) | Report | 26/09/2018 | Adequate |
| 19 | People and Place | Carbon Reduction Commitment | Report | 28/09/2018 | Good |

| Report Ref | Directorate | Audit Review/CF Report | Report/Briefing Note | Final Report Date | Opinion |
|--------------------------------|---------------------------------|--|----------------------|-------------------|------------|
| 20 | External Client/Group Company | Restricted | Report | 15/10/2018 | Withheld |
| 21 | External Client/Group Company | Restricted | Report | 15/10/2018 | Withheld |
| 22 | External Client/Group Company | Smart - UPL Shareholder Committee: Report to Cabinet | Report | 22/10/2018 | Withheld |
| 23 | Corporate & Commercial Services | Elections - Failsworth - Postal Vote Review | Briefing Note | 15/11/2018 | Advisory |
| 24 | External Client/Group Company | Restricted | Report | 26/11/2018 | Withheld |
| 25 | External Client/Group Company | Restricted | Report | 26/11/2018 | Withheld |
| Issued in December 2018 | | | | | |
| 26 | Corporate & Commercial Services | FFS Interim Final Report - Non Domestic Rates | Report | 19/12/2018 | Adequate |
| 27 | Corporate & Commercial Services | FFS Interim Final Report - Accounts Payable | Report | 19/12/2018 | Adequate |
| 28 | Corporate & Commercial Services | FFS Interim Final Report - Accounts Receivable | Report | 19/12/2018 | Good |
| 29 | Corporate & Commercial Services | FFS Interim Final Report - Payroll | Report | 19/12/2018 | Weak |
| 30 | Corporate & Commercial Services | FFS Interim Final Report - Housing Benefits | Report | 19/12/2018 | Adequate |
| 31 | Corporate & Commercial Services | FFS Interim Final Report - Housing Rents | Report | 19/12/2018 | Adequate |
| 32 | Corporate & Commercial Services | FFS Interim Final Report - Treasury Management | Report | 19/12/2018 | Good |
| 33 | Corporate & Commercial Services | FFS Interim Final Report - Personal Budgets | Report | 19/12/2018 | Inadequate |
| 34 | Corporate & Commercial Services | FFS Interim Final Report - Residential Home Care | Report | 19/12/2018 | Adequate |
| 35 | Corporate & Commercial Services | FFS Interim Final Report - Council Tax | Report | 19/12/2018 | Adequate |
| 36 | Corporate & Commercial Services | FFS Interim Final Report - Council Tax Reduction | Report | 19/12/2018 | Good |
| 37 | Corporate & Commercial Services | FFS Interim Final Report - Cash Income | Report | 19/12/2018 | Adequate |
| 38 | Corporate & Commercial Services | FFS Interim Final Report - Bank Reconciliations | Report | 19/12/2018 | Good |

| Report Ref | Directorate | Audit Review/CF Report | Report/Briefing Note | Final Report Date | Opinion |
|------------|--|---|----------------------|-------------------|-------------|
| 39 | Corporate & Commercial Services | FFS Interim Final Report - Fixed Assets | Report | 19/12/2018 | Good |

Note: total of 40 reports which includes item 1b - Election report.
