

Report to Audit Committee

Audit and Counter Fraud Progress Report

Portfolio Holder: Councillor Abdul Jabbar MBE – Deputy Leader and Cabinet Member for Finance and HR

Officer Contact: Mark Stenson – Head of Corporate Governance

Report Author: Mark Stenson – Head of Corporate Governance

Ext. 4783

11th January 2018

Reason for Decision

To provide Members with the progress report up to the 31st October 2017 by the Head of Corporate Governance and report back to the Audit Committee on the matters required by the Code of Practice for Internal Audit.

Executive Summary

The report summarises the performance by the Audit and Counter Fraud Team for the first seven months of 2017/18; the key performance highlights include:

- 19 Final Audit Reports issued since the 1st April 2017 (annual target of 85); however, at the time of writing there are a further 25 reports which are at the final stage of quality review or have been finalised after 31st October 2017;
- customer feedback average score received is 4.8 which is in line with the agreed target (maximum score is 5);
- time taken to issue reports continues to be efficient with an average time of around 18 days, against a target of 20 days;
- 45 positive cases of Council Tax Reduction Fraud and Error identified;
- £38k of Council Tax Reduction (CTR) misuse and savings has been uncovered;
- 6 Administration Penalties and 39 Warning Letters have been issued to Council Tax customers reminding them of their duties to report changes in their circumstances;
- £82k of Housing Benefit Fraud and Error overpayments identified during CTR investigations;
- 130 allegations of Welfare Fraud reported to the Department for Work and Pensions;
- 38 positive cases of non CTR fraud/misuse including Blue Badge Fraud, Employee Abuse of Position, Free School Meals, Council Tax Discount Fraud and Direct Payment Fraud; and
- the Direct Payments Audit Team has carried out 623 audits of Adults and Children's Direct Payments, against a target of 630, and identified approximately £961k to be recovered in overpayments, inappropriate use and financial contributions.

The team is on track to deliver results for most of the agreed performance indicators, in line with its annual targets.

Recommendations

Members are requested to note the 2017/18 Progress Report up to 31st October 2017 by the Head of Corporate Governance.

Audit and Counter Fraud Progress Report

1. Background

1.1 This report summarises the work carried out in the first seven months of 2017/18 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: 2017/18 Audit and Counter Fraud Plan: Progress Update
- Section 3: Corporate Counter Fraud
- Section 4: Audit of Personal Budgets

2. 2017/18 Audit and Counter Fraud Plan: Progress Update

2.1 The priorities for the 2017/18 Audit and Counter Fraud Plan are to:

- Complete the Fundamental Financial Systems (FFS) work on 2017/18 transactions and work to support the 2017/18 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** commenced in October 2017; and
 - **Final (Stage 2) Audits** to commence in February 2018, and will be completed by 31st March 2018.
- 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 have requested that regular progress reports be submitted using a traffic light system. The 2017/18 Audit and Counter Fraud Plan shown at **Appendix 1** shows the progress of the plan together with a traffic light system devised as set out below:

Status	Definition
Green	Reviews that are expected to be completed by 31 st March 2018
Amber	Reviews at risk of not being completed, days have been reduced or the work will be carried over into 2018/19
Red	Reviews that will not be completed during 2017/18
Blue	Reviews completed

2.3 Members of this Committee agreed the 2017/18 Audit and Counter Fraud Plan on 2nd March 2017. Progress against the agreed plan is reported regularly during the year to the Audit Committee. This report is the first performance report for 2017/18 for the period 1st April to 31st October 2017.

- 2.4 **Appendix 1** shows the audits carried out by Directorate compared to the previously agreed Audit and Counter Fraud Plan.
- 2.5 The Team's key performance indicators are discussed in the following paragraphs in line with the following targets, which are to:
- finalise 85 reports during 2017/18;
 - finalise audit reports within 10 days of completion of the fieldwork; and
 - achieve Customer Service Feedback of 4.8, out of a maximum 5.
- 2.6 The team have issued 19 Final Audit Reports since 1st April 2017, including one report to a third party, for whom audit titles and opinions are withheld. The finalised reports are listed in **Appendix 2** together with the audit "opinion". The details of these reports will be provided as part of each Progress Report on Internal Audit work in future Audit Committees. The number of Audit Reports is currently slightly behind the profiled target; however, it does not reflect the full spectrum of outputs and on-going advice associated with the support for ICT implementations. For example at the time of writing there are 25 reports, which are at the final stage of quality review and are due to be finalised.
- 2.7 **Appendix 2** shows that, from the 19 finalised audit reviews, nine assessed the Council's systems as "good", "adequate" or with "reasonable assurance", and nine advisory reviews were conducted to support managers at key milestones. One report was issued to an external client.
- 2.8 Since 1st April 2017, the average time taken to complete a review from end of field work to final report is approximately 18 days which is within the target of 20 days, and the average feedback score from auditees, after completion of the audit is 4.8, which is in line with the agreed target.
3. **Corporate Counter Fraud**
- 3.1 The Corporate Counter Fraud Team has also performed well. The key highlights are set out below and overleaf:
- 45 positive cases of Council Tax Reduction Fraud and Error identified;
 - £38k of Council Tax Reduction (CTR) misuse and savings has been uncovered;
 - 6 Administration Penalties and 39 Warning Letters have been issued to Council Tax customers reminding them of their duties to report changes in their circumstances;
 - £82k of Housing Benefit Fraud and Error Overpayments identified as part of the CTR investigations;
 - 130 allegations of Welfare Fraud reported to the Department for Work and Pensions; and
 - 38 positive cases of non CTR fraud/misuse including Blue Badge Fraud, Employee Abuse of Position, Free School Meals, Council Tax Discount Fraud and Direct Payment Fraud.
- 3.2 In line with the priorities agreed by the Audit Committee on 2nd March 2017, the Counter Fraud Team will 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 2017/18.
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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 for the year to date (YTD) are shown in the table below:

Adults Direct Payment Audits – Results 1st April 2017 to 31st October 2017

Month 2017/18	Audits Completed	Amount of monies Requested/Recovered following Audit	Cumulative Total
April	135	£281,185.76	£281,185.76
May	93	£69,246.91	£350,432.67
June	78	£114,526.30	£464,958.97
July	84	£192,936.99	£657,895.96
August	70	£89,796.80	£747,692.76
September	59	£90,881.30	£838,574.06
October	55	£70,815.49	£909,389.55
Total (year to date)	574	£909,389.55	

4.3 Following the audit, in 78% of cases, an invoice is raised to recover an under spend, expenditure not in line with the support plan, or misuse of the Direct Payments.

4.4 In summary, by the 31st October 2017 the team has carried out 574 Adults' Direct Payment audits against an annual target of 500 and identified approximately £909k to be recovered in overpayments, inappropriate use and financial contributions. Therefore team has exceeded its annual targets; 500 audits and £800k in recoveries.

4.5 Following a pilot in 2015/16, the Team also supports the business by conducting audits of Children's Direct Payments. The results for the year to date (YTD) are shown in the table below:

Children's Direct Payments Audits – Results 1st April 2017 to 31st October 2017

Month 2016/17	Audits Completed	Amount of monies Requested/Recovered following Audit	Cumulative Total
April	24	£29,936.00	£29,936.00
May	2	£1,155.05	£31,091.05
June	3	£2,326.14	£33,417.19
July	2	£0.00	£33,417.19
August	5	£212.34	£33,629.53
September	2	£2,453.22	£36,082.75
October	11	£15,691.00	£51,773.75
Total (year to date)	49	£51,773.75	

4.6 Following the audit, in 61% of cases, an invoice is raised to recover an under spend, expenditure not in line with the support plan, or misuse of the Direct Payments.

4.7 In summary, by the 31st October 2017 the team has carried out 49 audits against a target of 130 and identified approximately £52k to be recovered in overpayments and inappropriate use. In line with prior years, a large volume of Children's Personal Budget audits will be conducted in February and March 2018 to tie in with the annual reviews by the service.

5 **Options/Alternatives**

5.1 The Audit Committee can either chose to accept and note the progress achieved and performance by the Audit and Counter Fraud Team, or not do so. There are no other alternatives.

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 2017/18 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.

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: Audit and Counter Fraud Performance to 31st October 2017

Appendix 2: Final Reports Issued between 1st April and 31st October 2017

Audit and Counter Fraud Performance: 1st April 2017 to 31st October 2017:

All Directorates

The following pages set out the Audit and Counter Fraud Plan at Directorate level.

Directorates	2017/18 Audit and Counter Fraud Budget Days	2017/18 Actual Days 1st April to 31st October 2017
Corporate Projects	565	217
Corporate and Commercial	60	205
Economy, Skills and Neighbourhoods	285	91
Health and Well Being	180	102
Chief Executives	35	28
Responsive, Investigations, External Clients and Management	1,350	553
Total	2,475	1,196

1.1 Fundamental Financial Systems

** 2017/18 Interim Reviews - Final report issued on 21/12/17

Directorate/Type	Actual	1st April 2017	2017/18 Variance to Plan	BRAG	Audit Opinion
	1st April 2017 to 31st October 2017	Agreed Plan			
Fundamental Financial Systems **:					
Bank Reconciliations	1	10	(9)		
Fixed Assets	4	15	(11)		
Treasury Management	1	10	(9)		
Accounts Payable	6	25	(19)		
Accounts Receivable	1	25	(24)		
Council Tax (including Discounts and Exemptions)	11	20	(9)		
Council Tax Reduction Scheme	1	15	(14)		
Housing Benefit Payments	8	25	(17)		
Business Rates (Non Domestic Rates - NDR)	13	20	(7)		
Payroll	31	50	(19)		
Housing Rents	6	25	(19)		
Cash Income	1	35	(34)		
Residential Care Payments (Adults)	8	50	(42)		
Personal Budgets and Direct Payments (Adults)	8	50	(42)		
Total FFS Audits	100	375	(275)		

1.2 Strategic and Corporate Projects

Directorate/Type	Actual	1st April 2017	2017/18 Variance to Plan	BRA G	Audit Opinion
	1st April 2017 to 31st October 2017	Agreed Plan			
Strategic Audits					
Devolution Budgets	0	40	(40)		
Developments on Health Integration	0	0	0		
Arrangements for Monitoring Indemnities and Financial Undertakings	0	0	0		
Assurance to the Combined Authority Current & Future Developments	0	0	0		
Working Well Initiative	0	0	0		
European Grants	18	0	+18		Reasonable Assurance
External Funding	0	10	+10		
Cash Audits - Detailed reviews of Cash Collection	11	15	(4)		
SMART	50	0	+50		Advisory
IT Audit Plan	11	75	(64)		
Grant Related Audits - various	27	50	(23)		Various
Total Strategic Audits	117	190	(123)		

2. Corporate and Commercial Services

Directorate/Type	Actual	1st April 2017	2017/18 Variance to Plan	BRAG	Audit Opinion
	1st April 2017 to 31st October 2017	Agreed Plan			
Risk Based Verification	22	10	+12		Inadequate
Elections	23	30	(7)		Advisory
Governance Training for Members and Managers	0	5	(5)		
IT Audit Plan	1	0	+1		
End To End Review	3	5	(2)		
HMRC Emerging Risks	4	10	(6)		
FFS General	50	0	+50		Advisory
A1 Assurance	79	0	+79		
A1 Post Implementation Review	8	0	+8		
FFS Follow up	9	0	+9		
QA Year end	6	0	+6		
Total Corporate & Commercial Services Audits	205	60	+145		

3. Economy, Skills and Neighbourhoods

Directorate/Type	Actual	1st April 2017	2017/18 Variance to Plan	BRAG	Audit Opinion
	1st April 2017 to 31st October 2017	Agreed Plan			
Regeneration Projects Budget:	17	0	+17		
Old Town Hall follow up review	9	10	(1)		
Hotel Future	0	6	(6)		
Princes Gate	0	10	(10)		
Coliseum Theatre and Heritage Project	0	10	(10)		
School Capital Programme:	0	15	(15)		
Greenfield Primary School	0	0	0		
Saddleworth Replacement School	0	0	0		
Royton and Crompton	0	0	0		
Royton Town Centre	0	6	(6)		
Contingency/Planning for future schemes:	0	0	0		
Hollinwood Junction Development	0	7	(7)		
Foxdenton Business Park and Other Developments	0	6	(6)		
Property Disposal including Capital Receipts	0	20	(20)		
Unity Work Programme Follow Up	0	10	(10)		
Capital Grants Follow Up	0	15	(15)		
New School Places	0	15	(15)		
Schools' Audit Plan	59	80	(22)		Various
Education Governance Training	6	10	(4)		
Academies/Free Schools	0	10	(10)		
Special Education Needs (SEN)	0	10	(10)		
Early Years	0	10	(10)		
Highways Maintenance	0	15	(15)		
Devolved Budgets to Members	0	10	(10)		
Waste Management	0	10	(10)		
Total Economy, Skills & Neighbourhoods	91	285	(194)		

4. Health and Well Being

Directorate/Type	Actual	1st April 2017	2017/18 Variance to Proposed Plan	BRAG	Audit Opinion
	1st April 2017 to 31st October 2017	Agreed Plan			
Working in Partnership with Health	0	30	(30)		
Changes to Financial Processes around the Care Act 2014	2	20	(18)		
Frameworki (FWi)	16	30	(14)		Reasonable Assurance
Supported Living	2	15	(13)		
Brokerage (including in-house)	0	20	(20)		
Mental Health Financial Processes	0	15	(15)		
Safeguarding People	0	20	(20)		
First Choice Homes (FCHO)- Housing Allocation Process: (Adults)	12	10	+2		
Mosaic	29	0	+29		Advisory
Adults Budget Monitoring	39	0	+39		
Public Health: Oldham Community Leisure (OCL) Follow Up:	0	10	(10)		
Foster Care Follow Up	2	10	(8)		
Total Health & Wellbeing Audits	102	180	(78)		

5. Chief Executives

Directorate/Type	Actual	1st April 2017	2017/18 Variance to Proposed Plan	BRAG	Audit Opinion
	1st April 2017 to 31st October 2017	Agreed Plan			
Environmental Management System (ISO 40001)	1	15	(14)		
Carbon Reduction Commitment	13	10	+3		Adequate
Oldham Community Power - Energy Company	14	10	+4		Adequate
Total Chief Executives Audits	28	35	(7)		

6. Responsive, Investigations and External Clients

Directorate/Type	Actual	1st April 2017	2017/18 Variance to Proposed Plan	BRAG	Audit Opinion
	1st April 2017 to 31st October 2017	Agreed Plan			
Investigations		180	(80)		
Case - CP	16				
Case - AM	65				
Case - SM	5				
Case - RM	6				
School BB	4				
School ST	4				
ISO 37001	0	10	(10)		
Right to Buy Review	0	10	(10)		
National Fraud Initiative and Other Data Matching	19	30	(11)		
Council Tax Reduction	37	0	+37		
Annual Review of Policies	0	20	(20)		
Fraud Awareness Programme	0	20	(20)		
Harmony Trust Academy	0	15	(15)		
Greater Manchester Waste Disposal Authority	1	60	(59)		
MioCare Group Community Interest Company (CIC)	1	40	(39)		
Business Development	0	10	(10)		

Directorate/Type	Actual	1st April 2017	2017/18 Variance to Proposed Plan	BRAG	Audit Opinion
	1st April 2017 to 31st October 2017	Agreed Plan			
2017/18 Annual Audit Opinion	0	15	(15)		
Committee Reporting	8	40	(32)		
2018-2019 Audit & Counter Fraud Plan, Management Planning, Assurance	2	20	(18)		
Contingency for Unplanned Work	5	80	(75)		
Follow Up Reviews	2	30	(28)		
Team Training and Development	0	100	(100)		
Audit Management System (AMS)	24	20	+4		
Personal Budget Audits	353	650	(297)		
Total Responsive, Investigations, QAIP and External Clients	553	1,350	797		

Audit and Counter Fraud 2017/18: Summary of Final Reports - 1st April to 31st October 2017

Report Ref	Directorate **	Audit Review/CF Report	Report/Briefing Note	Final Report Date	Quarter	Opinion
201718.1	EC	Title withheld	Report	13/04/2017	Q1	Opinion Withheld
201718.2	CCS	By Election 8th June 2017: Postal Votes Verification: Royton North	Report	14/06/2017	Q1	Advisory
201718.3	CCS	Parliamentary Election 8th June 2017: Postal Votes Verification: Oldham East & Saddleworth Constituency	Report	14/06/2017	Q1	Advisory
201718.4	CCS	Parliamentary Election 8th June 2017: Postal Votes Verification: Oldham West & Royton Constituency	Report	14/06/2017	Q1	Advisory
201718.5	HWB	Adults Budget - Monitoring Direct Payments	Briefing Note	23/06/2017	Q1	Advisory
201718.6	HWB	Mosaic Assurance Statement	Assurance Statement	03/07/2017	Q2	Advisory
201718.7	CCS	Control and Risk Self Assessment: Cash Income	Advisory	03/07/2017	Q2	Advisory
201718.8	CCS	A1 Chaps Briefing Note	Advisory	04/07/2017	Q2	Advisory
201718.9	CCS	Local Fund Growth Grant	Assurance Statement	12/07/2017	Q2	Reasonable Assurance
201718.10	HWB	Direct Payment Mis-use	Briefing Note	17/07/2017	Q2	Advisory
201718.11	CCS	Risk Based Verification	Report	21/07/2017	Q2	Adequate
201718.12	CCS	A1 Access Review: Interim	Briefing Note	01/08/2017	Q2	Advisory
201718.13	ESN	Carbon Reduction Commitment	Report	29/08/2017	Q2	Adequate
201718.14	ESN	Oldham Community Power - Energy Company	Report	29/08/2017	Q2	Adequate
201718.15	CCS	EU Grant FoodChains 4 EU	Assurance Statement	24/08/2017	Q2	Reasonable Assurance
201718.16	CCS	EU Grant COALESCCE	Assurance Statement	24/08/2017	Q2	Reasonable Assurance
201718.17	CCS	Innova Foster	Assurance Statement	24/08/2017	Q2	Reasonable Assurance
201718.18	ESN	School A	Report	28/09/2017	Q2	Good
201718.19	ESN	School B	Report	28/09/2017	Q2	Adequate

**** Directorate Key:**

Council Directorate/Client	Abbreviation Applied
Corporate and Commercial Services	CCS
Economy, Skills and Neighbourhoods	ESN
Health and Wellbeing	HWB
External Client	EC