

Report to Audit Committee

2022/23 Internal Audit and Counter Fraud Progress Report

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Low Carbon

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Reason for Decision

To provide Members with a high-level progress report on the work of the Internal Audit and Counter Fraud team for the 2022/23 financial year.

Executive Summary

The report summarises the work carried out by the team from 1 April 2022 to 31 December 2022.

In the first 9 months of the year the team prioritised finalising work on the Fundamental Financial Systems (FFS) reviews to support the 2021/22 audit of the financial accounts, and draft final reports have been issued.

In addition, other Audit and Counter Fraud Team activity includes:

- Commencement of the 2022/23 FFS reviews.
 - Continued support in respect of COVID-19 grant funding regimes, including responding to Central Government requests for supporting information and Assurance Statements in respect of grants paid.
 - Continued support in providing assurance in respect of other non-COVID Central Government Grant regimes.
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- Compilation of the Annual Audit Report and Opinion and other reports for this Committee.
- Completion of Audit reviews of Local Authority Maintained Schools for St Joseph's Primary School and Glodwick Infant and Nursery School, and Miocare CIC's Fundamental Financial Systems.
- Issuing briefing notes and reports on Postal Voting during the election in May 2022 and the Hollinwood by-election, Foster Care Aids & Adaptations, Payroll leavers, and IR35 Procedures and Controls.
- Commencement of audit reviews in connection with the Alexandra Park Eco project, the Council's Let Estate Function, Children's Social Services Cash Imprest Accounts, Disabled Facilities Grant Funding, Housing Strategy implementation, the Land Sales Programme, Spindles procurement and the North Chadderton High School Extension project.
- The Counter Fraud and Direct Payments Audit Teams (Children and Adults) have continued to deliver significant recovery outcomes which have generated £2,282,951 and £138,684 (respectively) for the period 1 April to 31 December 2022.

Recommendation

Members are requested to note the 2022/23 Audit and Counter Fraud Progress Report.

2022/23 Internal Audit and Counter Fraud Progress Report

1. Background

- 1.1 This report summarises the work of the Audit and Counter Fraud Team between 1 April and 31 December 2022.
- 1.2 The main content of the report is structured as follows:
 - Section 2: 2022/23 Audit and Counter Fraud Plan: Progress Update.
 - Section 3: Corporate Counter Fraud.
 - Section 4: Audit of Direct Payments.

2. 2022/23 Audit and Counter Fraud Plan: Progress Update

- 2.1 Priorities for the 2022/23 Audit and Counter Fraud Plan are:
 - Fundamental Financial Systems (FFS) reviews to provide assurance in support of the Authority's annual financial statements.
 - Audits which are classed as "high priority" in the Annual Audit Needs Assessment.
 - Counter Fraud work to identify fraud risks within the corporate systems.
 - Specific fraud investigations on Council Tax Reduction and Corporate Fraud.
 - Delivery of the financial audits of Direct Payments in line with service plans and targets.
 - Support and provide assurance in connection with postal votes for local, regional, and parliamentary elections.

Progress against these priorities is summarised below:

Completion of 2021/22 Fundamental Financial Systems (FFS) reports

- 2.2 Work commenced on these reviews in October 2021. Interim FFS reports were issued by the 31 March 2022 and final reports during Quarters 1 and 2 of 2022/23. Members have received reports on the findings and opinions of the 2021/22 FFS reports throughout 2021/22, and as part of the Audit and Counter Fraud Team's reporting for the year as a whole. There are no further significant updates to report upon at this time in respect of our FFS work for 2021/22. Further details can be found at Appendix 1.

2022/23 Fundamental Financial Systems (FFS) reports

- 2.3 Work in connection with the current year FFS reviews commenced in October 2022 and is ongoing. In contrast to previous years, we will not issue interim FFS reports. Instead, we will issue interim Action Plans to Services detailing the results of our testing and recommendations for improvement. Final reports will be issued as normal in Quarters 1 and 2 of the new 2023/24 financial year.

Non-FFS related work

- 2.4 In addition to the 2021/22 FFS related reports the team has also issued:
 - School Audit Reports to the Local Authority Maintained Schools of St Joseph's Primary School and Glodwick Infant and Nursery School.
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- A briefing note and report on Postal Voting during the election in May 2022 and a further report on this topic for the Hollinwood by-election.
- The annual report on Miocare CIC's Fundamental Financial Systems.

2.5 A number of other ad-hoc pieces of work have also been undertaken in response to issues identified during the recent rounds of budget challenge meetings, and at the request of the Director of Finance and/or Assistant Director of Finance (Corporate Governance and Strategic Financial Management). As a result of this work, we have issued Audit Briefing Notes with recommendations for improvement in the following areas:

- Foster Care Aids & Adaptations.
- Payroll leavers.
- IR35 Procedures and Controls.

Grant Assurance Reviews

2.6 Further work was also undertaken in connection with grant funding schemes in response to the COVID-19 pandemic, primarily responding to Central Government requests for supporting information and/or assurance statements to ensure grant funding has been utilised as intended. Requests for this type of work have been both frequent and received at relatively short notice.

2.7 The team has completed 17 separate pieces of grant assurance work since April 2022 in connection with both COVID-19 related and non COVID-19 related grants, with an expectation that further requests for this type of assurance work are now increasing again to pre COVID-19 levels. Each piece of assurance work requires verification of significant expenditure and, as such, each represents a small, targeted audit in itself.

Other Work Undertaken

2.8 In addition to our annual FFS work on Adult Social Services in connection with Direct Payments and Residential Care we continue to contribute to Adult Social Care Service working groups to address the concerns raised in the FFS audit reports in these areas. As a result of these discussions, we have offered to assist the Service by the Direct Payment (DP) Auditors invoicing for DP overpayments as soon as the DP audit is concluded. This should assist the service in reducing the levels of DP overpayments outstanding for recovery. We anticipate commencing this invoicing in January 2023.

2.9 Other work currently underway includes reviews of:

- Children's Social Services Cash Imprest Accounts.
- The Alexandra Park Eco project.
- The Council's Let Estate Function
- A Disabled Facilities Grant Funding enquiry.
- Housing Strategy implementation.
- Land Sales Programme.
- North Chadderton High School Extension project.

The findings from these reviews will be reported in due course.

2.10 Preparatory work has also commenced in respect of reviews of:

- Old Museum / Library project
 - Home to school Transport
 - Out of Borough Education
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2.11 The team has also supported both the Director of Finance and other colleagues within the Finance Service, and in other service areas, with ad hoc requests for support and assistance throughout the period.

3. Corporate Counter Fraud

3.1 The Corporate Counter Fraud Team continues to perform well. Appendix 2 sets out the key outcomes from the work conducted.

3.2 Highlights include the identification of:

- 86 cases of non-CTR fraud/misuse of funds including Business Support Grants, Council Tax Single Person Discount fraud (SPD), Blue Badge misuse and Direct Payment misuse.
- £139k of non-CTR fraud/misuse.
- 30 cases of ineligible claims for Council Tax Reduction (CTR).
- £81k of Housing Benefit ineligibility and overpayments (identified as part of the CTR investigations).
- £58k of ineligible claims for Council Tax Reduction (CTR).

3.3 In line with the priorities agreed by the Audit Committee, the Counter Fraud Team will continue to:

- Collaborate with the Internal Audit Team.
- Ensure the delivery of the Internal Audit and Counter Fraud Plan 2022/23.

4. Audit of Direct Payments

4.1 The Direct Payments Audit team has a dual role, as a compensating control, of:

- Ensuring client spending is in line with their agreed Support Plan.
- Identifying overpayments made / or client contributions outstanding for recovery.

4.2 Appendix 3 shows the monthly Direct Payments Audit volumes and financial outcomes arising for both Adults and Children's Services, which are £2,282,951 and £138,684 (respectively). In summary, the team carried out 1,083 Adults and Children's Direct Payment Audits.

5 Options/Alternatives

5.1 The Audit Committee can either:

- a) choose to accept and note the progress achieved and performance by the Audit and Counter Fraud Team; or,
- b) decline to accept and note the progress achieved and performance by the Audit and Counter Fraud Team and suggest an alternative approach.

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 **Co-operative Agenda**
 - 10.1 N/A.
 - 11 **Human Resources Comments**
 - 11.1 N/A.
 - 12 **Risk Assessments**
 - 12.1 The 2022/23 Audit and Counter Fraud Plan is prepared, reviewed, and updated using a risk-based approach. The Terms of Reference for each agreed project are also determined using a risk-based methodology. (Mark Stenson)
 - 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 1, 2 & 3
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22 **Appendices**

22.1 The following Appendices are available to support this Report:

- **Appendix 1:** Summary of Audit Reports/Outcomes – 1 April to 31 December 2022
 - **Appendix 2:** Counter Fraud Results – 1 April to 31 December 2022
 - **Appendix 2:** Direct Payments Results – 1 April to 31 December 2022
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Audit and Counter Fraud 2022/23 - Summary of Audit Reports/Outcomes - 1 April 2022 to 31 December 2022

Report Ref	Directorate	Audit Review/Counter Fraud Report	Report/Briefing Note	Quarter	Opinion
1	Chief Executive	2021/22 Draft Final Report – Council Tax	Report	Q1	Inadequate
2	Chief Executive	2021/22 Draft Final Report – Business Rates (NDR)	Report	Q1	Adequate
3	Chief Executive	2021/22 Draft Final Report – Treasury Management	Report	Q1	Good
4	Chief Executive	2021/22 Draft Final Report – Bank Reconciliations	Report	Q1	Good
5	Chief Executive	2021/22 Draft Final Report – Payroll	Report	Q1	Adequate
6	Chief Executive	2021/22 Draft Final Report – Housing Benefit	Report	Q1	Adequate
7	Chief Executive	2021/22 Draft Final Report – Council Tax Reduction	Report	Q1	Adequate
8	Chief Executive	2021/22 Draft Final Report – Accounts Payable	Report	Q1	Adequate
9	Chief Executive	2021/22 Draft Final Report – Accounts Receivable	Report	Q1	Adequate
10	Chief Executive	2021/22 Draft Final Report – Direct Payments	Report	Q1	Inadequate
11	Chief Executive	2021/22 Draft Final Report – Residential Care	Report	Q1	Inadequate
12	Chief Executive	2021/22 Draft Final Report – Fixed Assets	Report	Q1	Adequate
13	Place & Economic Growth	2021/22 Draft Final Report – Cash Income (Building Control)	Report	Q2	Adequate
14	Place & Economic Growth	2021/22 Draft Final Report – Cash Income (Fleet Management)	Report	Q2	Adequate
15	Children & Young People	St Joseph's Primary	Report	Q2	Inadequate
16	Chief Executive	Contain Outbreak Management Fund	Grant Assurance	Q2	Assurance
17	Chief Executive	Prevention and Promotion for Better Mental Health	Grant Assurance	Q1	Assurance
18	Chief Executive	Test and Trace Support Payments	Grant Assurance	Q2	Assurance
19	Chief Executive	Universal Drug Treatment Grant	Grant Assurance	Q1	Assurance
20	Chief Executive	Public Sector Decarbonisation Grant (AGMA) – Low Voltage Lighting	Grant Assurance	Q1	Assurance

21	Chief Executive	Public Sector Decarbonisation Grant (OMBC) – Alexandra Park	Grant Assurance	Q1	Assurance
22	Chief Executive	RED WoLF - Rethink Electricity Distribution Without Load Following	Grant Assurance	Q1	Assurance
23	Chief Executive	Omicron Hospitality and Leisure Grant Pre & Post Payment Assurance (PPAS)	Grant Assurance	Q1	Assurance
24	Chief Executive	Additional Restrictions Grant Pre & Post Payment Assurance (PPAS)	Grant Assurance	Q1	Assurance
25	Chief Executive	COVID-19 Business Grants Fraud and Error Assurance	Grant Assurance	Q1	Assurance
26	Chief Executive	Local Restrictions Support Grant (Closed) Addendum 5 Pre & Post Payment Assurance (PPAS)	Grant Assurance	Q3	Assurance
27	Chief Executive	Local/Mayoral Election - Post Votes Review	Report	Q1	Advisory
28	Chief Executive	Local Elections Postal Vote Checks	Briefing note	Q1	Advisory
29	Children & Young People	Glodwick Infant and Nursery School	Report	Q2	Adequate
30	Children & Young People	Foster Care Aids & Adaptations	Briefing note	Q3	Advisory
31	Chief Executive	Payroll Query	Briefing note	Q3	Advisory
32	Chief Executive	IR35 Procedures and Controls	Briefing note	Q3	Advisory
33	Miocare CIC	Fundamental Financial Systems Review	Report	Q3	Assurance
34	Chief Executive	Local Transport Capital Block Funding Grant (Pothole Fund) 31/5506	Grant Assurance	Q3	Assurance
35	Chief Executive	RED WoLF - Rethink Electricity Distribution Without Load Following	Grant Assurance	Q3	Assurance
36	Chief Executive	Reduces – Developing sustainable business models / structures.	Grant Assurance	Q3	Assurance
37	Chief Executive	Foundations - Building regional resilience to industrial structural change.	Grant Assurance	Q3	Assurance
38	Chief Executive	Coalescce - Community Owned and Led Energy for Security Climate Change and Energy	Grant Assurance	Q3	Assurance
39	Chief Executive	Restart Grant Pre & Post Payment Assurance (PPAS)	Grant Assurance	Q3	Assurance
40	Chief Executive	Postal Vote Integrity Review - Hollinwood By-Election	Report	Q3	Advisory

Key:

Opinion	Description
Advisory	The work in this area is either not audit work in nature, such as provision of advice and consultancy, and/or is undertaken on behalf of third parties.
Assurance	The work in this area has been undertaken in order to provide assurance that, e.g. funding has been spent as intended and/or procedures and controls have operated effectively
Poor	Action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Inadequate	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives in the area audited.
Adequate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance and/or scope for improvement were identified which could put at risk the achievement of objectives in the area audited.
Good	A sound system of governance, risk management and/or control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Opinion withheld	Opinion has been withheld at interim stage pending further fieldwork required at final report stage in order to arrive at an opinion on the systems and controls in place.
TBC	Opinion awaiting confirmation following further discussion with management.

Audit and Counter Fraud 2022/23

Counter Fraud Results 1 April 2022 to 31 December 2022

Counter Fraud Team Performance Monitoring 2022/23	Quarter 1 (Month 1-3)	Quarter 2 (Month 4-6)	Quarter 3 (Month 7-9)	Total
Corporate Cases - Positive Results	58	10	18	86
Fraud and Error Overpayments identified as part of Corporate Cases (£)	£70,487.46	£53,591.92	15,380.40	£139,459.78
CTR cases amended as a result of an investigation	12	8	10	30
HB Fraud and Error Overpayments identified as part of a CTR investigation (£)	£32,179.15	£22,000.14	£26,914.19	£81,093.48
CTR Fraud and Error Overpayments identified (£)	£10,462.14	£18,676.11	£29,308.22	£58,446.47
Financial Outcomes	£113,128.75	£94,268.17	£71,602.81	£278,999.73

Audit and Counter Fraud 2022/23

Direct Payments Results 1 April 2022 to 31 December 2022

Adults Social Care

Financial Year 2022/23	Number of Audit Reviews	Total Direct Payment and Financial Contribution for Recovery
April	129	£372,125.60
May	83	£188,483.36
June	91	£237,602.47
July	153	£392,376.24
August	98	£251,587.73
September	85	£263,925.00
October	128	£287,061.97
November	86	£191,315.25
December	55	£98,473.79
Total	908	£2,282,951.41

Children and Young People

Financial Year 2022/23	Number of Audit Reviews	Total Direct Payment for Recovery
April	20	£10,846.10
May	10	£8,805.31
June	7	£10,707.09
July	17	£9,205.66
August	18	£10,943.14
September	20	£10,849.51
October	10	£5,052.47
November	44	£55,796.92
December	29	£16,477.98
Total	175	£138,684.18