

Report to Audit Committee

2023/24 Internal Audit and Counter Fraud Progress Report

Portfolio Holder: Councillor Abdul Jabbar MBE, Cabinet Member for Finance and Corporate Resources

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31 October 2023

Reason for Decision

The Audit Committee's Terms of Reference state that:

4.4.2 The Audit Committee shall:

a) be responsible for oversight of the Council's Internal Audit arrangements and will;
(ii) review summary findings and the main issues arising from internal audit reports and seek assurance that management action has been taken where necessary;

This report provides Members with a high-level progress report on the work of the Internal Audit and Counter Fraud team for Q2 of the 2023/24 financial year which alongside:

- further progress reports on Q3 and Q4 for 2023/24 to be provided to the Committee during the year;
- the Head of Audit and Counter Fraud's Annual Report and Opinion for the year 2023/24; and,
- joint reports to the Audit Committee on Actions to address agreed service areas;

assists the Committee in discharging its responsibilities as set out in the Audit Committee's Terms of Reference, which form part of the Council's Constitution.

Executive Summary

The report summarises the work carried out by the team from 1 April 2023 to 30 September 2023.

During the first half of the year the team prioritised the Council's Fundamental Financial Systems (FFS) reviews to provide assurance in respect of the 2022/23 Financial Statements, and the Annual Opinion Report of the Head of Audit and Counter Fraud for 2022/23.

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

- Continued support in respect of COVID-19 grant funding regimes, including responding to Central Government requests for supporting information in respect of grants received.
- Completion of a variety of other planned Audit reviews and reports on St Theresa's Primary School, St. Joseph's Primary School and Licensing Income.
- Ongoing work on audit reviews of Street Lighting, Energy Management, Land Sales, the Contract Register, Spindles Procurement, the Music Service and Burnley Brow Primary School, and the Council's Music Service.
- Corporate Counter Fraud activities have identified £123,626 of fraud, errors and overpayments. The Direct Payments Audit Team (Children and Adults) have continued to deliver significant recovery outcomes which have generated £31,289 and £1,343,777 (respectively) for the period 1 April 2023 to 30 September 2023.

Recommendation

Members are requested to consider and note the 2023/24 Q2 Audit and Counter Fraud Progress Report.

2023/24 Q2 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 2023 and 30 September 2023.
- 1.2 The main content of the report is structured as follows:
- Section 2: 2023/24 Audit and Counter Fraud Service: Progress Update.
 - Section 3: Corporate Counter Fraud.
 - Section 4: Audit of Direct Payments.

2. 2023/24 Audit and Counter Fraud Service: Progress Update

2.1 Priorities for the 2023/24 Audit and Counter Fraud Plan include:

- 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:

2022/23 Fundamental Financial Systems (FFS) reports

- 2.2 Work commenced on these reviews in October 2022 and draft final reports were issued during Quarter 1 of 2023/24. Members have received reports on the significant findings of our work in this area in connection with Payroll, Adult Social Care, Children's Social Care and Debt as part of the Annual Report and Opinion of the Head of Audit and Counter Fraud for the year 2022/23.
- 2.3 During Quarter 2 the following were the subject of further discussion and finalisation with management, and final reports were issued in respect of:
- Council Tax
 - Business Rates (NDR)
 - Treasury Management
 - Bank Reconciliations
 - Housing Benefit
 - Council Tax Reduction
 - Accounts Payable
 - Fixed Assets
 - Children's Social Care

Further details can be found at Appendix 1.

- 2.4 As at the date of writing, final reports have also been issued in Quarter 3 in respect of:
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- Payroll
- Accounts Receivable
- Debt Recovery

2.5 An update on progress against agreed actions in the 2022/23 Payroll report will be presented to the Audit Committee at its meeting in January 2024.

2.6 The Draft Accounts Receivable report has, at final stage, been split into two separate reports and re-issued. The first report, of the same name, now covers only the day-to-day Accounts Receivable functions, and now has an opinion of Adequate. A second report in respect of the Council's Debt Recovery processes has been issued in order to focus management attention on this area. The Debt Recovery process was the reason for the original Draft Opinion on Accounts Receivable being Inadequate. This opinion now transfers to the new Debt Recovery report where the audit opinion is Inadequate.

2.7 The remaining two FFS reports in the process of finalisation are the Direct Payment review, and the Residential Care review. Members received a presentation from the Director of Adult Social Care on the Service's response to the Direct Payment Audit review at the Audit Committee meeting in July 2023. Internal Audit continues to work with the Service in constructing and implementing its response to the recommendations made, and the Direct Payment report will also be the subject of a further update on progress to the Audit Committee in January 2024.

Other planned work

2.8 In addition to the FFS related reports the team has also issued draft reports on St. Theresa's Primary, St. Joseph's Primary School, and Licensing Income.

2.9 Other work underway as at 30 September 2023 included reviews of:

- The Council's Land Sales Programme.
- Spindles pre-contract procurement review.
- Contract Register.
- Energy Management.
- Street Lighting.
- Burnley Brow Primary School.
- Music Service.

2.10 One further planned review ongoing in the quarter was in relation to IT Vulnerability Management Controls. This work is undertaken by Salford Computer Audit Service (SCAS) which is part of Salford Council and which provides specialist IT related audit services across North West Local Authorities and beyond.

Grant Assurance Reviews

2.11 Further work was also undertaken in connection with grant funding schemes in response to the COVID-19 pandemic by way of responding to Central Government requests for supporting information to ensure grant funding has been utilised as intended.

Other Work Undertaken

2.12 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 as required.

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:

- 45 cases of non-CTR fraud/misuse of funds including Council Tax Single Person Discount fraud (SPD), Blue Badge misuse, abuse of position and Direct Payment misuse.
- £14,889 of non-CTR fraud/misuse.
- 40 cases of ineligible claims for Council Tax Reduction (CTR).
- £46,885 of Housing Benefit ineligibility and overpayments (identified as part of the CTR investigations).
- £61,851 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 2023/24.

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 Direct Payments Audit volumes and financial outcomes arising for both Adults and Children's Services, which are £1,343,777 and £31,289 (respectively). In total the team carried out 475 Adults and Children's Direct Payment Audits.

4.3 The team also continues to assist the Adult Social Care Service by way of the Direct Payment (DP) Auditors invoicing for DP overpayments as soon as the DP audit is concluded. We commenced this invoicing in January 2023.

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 2023/24 Audit and Counter Fraud Plan was 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. (John Miller)
 - 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 2023 to 30 September 2023
 - **Appendix 2:** Counter Fraud Results – 1 April 2023 to 30 September 2023
 - **Appendix 3:** Direct Payments Results – 1 April 2023 to 30 September 2023
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Audit and Counter Fraud 2023/24 - Summary of Audit Reports/Outcomes - 1 April 2023 to 30 September 2023

Report Ref	Directorate	Audit Review/Counter Fraud Report	Report/Briefing Note	Quarter	Opinion
1	Chief Executive	2022/23 Draft Final Report – Council Tax	Report	Q1	Adequate
2	Chief Executive	2022/23 Draft Final Report – Business Rates (NDR)	Report	Q1	Adequate
3	Chief Executive	2022/23 Draft Final Report – Treasury Management	Report	Q1	Good
4	Chief Executive	2022/23 Draft Final Report – Bank Reconciliations	Report	Q1	Good
5	Chief Executive	2022/23 Draft Final Report – Payroll	Report	Q1	Inadequate
6	Chief Executive	2022/23 Draft Final Report – Housing Benefit	Report	Q1	Adequate
7	Chief Executive	2022/23 Draft Final Report – Council Tax Reduction	Report	Q1	Adequate
8	Chief Executive	2022/23 Draft Final Report – Accounts Payable	Report	Q1	Adequate
9	Chief Executive	2022/23 Draft Final Report – Accounts Receivable	Report	Q1	Inadequate
10	Adult Social Care	2022/23 Draft Final Report – Direct Payments	Report	Q1	Weak
11	Adult Social Care	2022/23 Draft Final Report – Residential Care	Report	Q1	Inadequate
12	Chief Executive	2022/23 Draft Final Report – Fixed Assets	Report	Q1	Adequate
13	Children & Young People	2022/23 Draft Final Report – Cash Income (Lifelong Learning)	Report	Q1	Good
14	Children & Young People	2022/23 Draft Final Report – Children’s Social Care	Report	Q1	Inadequate

Report Ref	Directorate	Audit Review/Counter Fraud Report	Report/Briefing Note	Quarter	Opinion
15	Children & Young People	Draft Report - Semi Independence Units (Follow up)	Report	Q1	Adequate
16	Place & Economic Growth	Draft Report - Diggle Clock Tower pre-contract procurement	Report	Q1	Adequate
17	Place & Economic Growth	Draft Report - Old Museum / Library pre-contract procurement	Report	Q1	Adequate
18	Place & Economic Growth	Draft Report - Egyptian Room pre-contract procurement	Report	Q1	Adequate
19	Place & Economic Growth	Draft Report - North Chadderton High School Extension pre-contract procurement.	Report	Q1	Good
20	Children & Young People	Draft Report - Out of Borough Placements	Report	Q1	Adequate
21	Place & Economic Growth	Draft Report - Housing Strategy Implementation	Report	Q1	Adequate
22	Chief Executive	Draft Report – IT Change Management (SCAS)	Report	Q1	Adequate
23	Chief Executive	Local Elections Postal Vote Checks	Briefing note	Q1	Assurance
24	Chief Executive	2022/23 Final Report – Council Tax	Report	Q2	Adequate
25	Chief Executive	2022/23 Final Report – Business Rates (NDR)	Report	Q2	Adequate
26	Chief Executive	2022/23 Final Report – Treasury Management	Report	Q2	Good
27	Chief Executive	2022/23 Final Report – Bank Reconciliations	Report	Q2	Good
28	Chief Executive	2022/23 Final Report – Housing Benefit	Report	Q2	Adequate
29	Chief Executive	2022/23 Final Report – Council Tax Reduction	Report	Q2	Adequate
30	Chief Executive	2022/23 Final Report – Accounts Payable	Report	Q2	Adequate
31	Chief	2022/23 Final Report – Fixed Assets	Report	Q2	Adequate

Report Ref	Directorate	Audit Review/Counter Fraud Report	Report/Briefing Note	Quarter	Opinion
	Executive				
32	Children & Young People	2022/23 Final Report – Children’s Social Care	Report	Q2	Inadequate
33	Children & Young People	Draft Report - St. Theresa’s Primary	Report	Q2	Inadequate
34	Place & Economic Growth	Draft Report - Licensing Income	Report	Q2	Adequate
35	Children & Young People	Final Report - Home to School Transport	Report	Q2	Inadequate
36	Children & Young People	Final Report – Out of Borough Placements	Report	Q2	Adequate
37	Children & Young People	Draft Report - St Joseph’s Primary (follow-up)	Report	Q2	Assurance

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
Weak	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 2023/24

Counter Fraud Results 1 April 2023 to 30 September 2023

Counter Fraud Team 2023/24	Quarter 1	Quarter 2	Total
Corporate Cases - Positive Results	17	28	45
Fraud and Error Overpayments identified as part of Corporate Cases (£)	£4,903.68	£9,985.92	£14,889.60
CTR cases amended as a result of an investigation	22	18	40
HB Fraud and Error Overpayments identified as part of a CTR investigation (£)	£36,612.72	£10,272.45	£46,885.17
CTR Fraud and Error Overpayments identified (£)	£33,519.65	£28,332.18	£61,851.83
Financial Outcomes	£75,036.05	£48,590.55	£123,626.60

Audit and Counter Fraud 2023/24

Direct Payments Results 1 April 2023 to 30 September 2023

Direct Payments Team 2023/24	Quarter 1	Quarter 2	Total
Number of Children's Direct Payment audits undertaken	2	9	11
Funds requested during Children's Direct Payment Audit	£2,376.26	£28,913.49	£31,289.75
Number of Adults Direct Payment Audit undertaken	190	274	464
Funds requested during Adults Direct Payment Audit	£485,029.33	£858,748.36	£1,343,777.69
Total Financial Outcomes from Direct Payment Audit Team	£487,405.59	£887,661.85	£1,375,067.44