

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT PROGRESS REPORT

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 The Internal Audit Section delivers an annual programme of audit work designed to raise standards of governance, risk management and internal control across the council.
- 1.2 This work culminates in the Internal Audit's Annual Report that is used to inform the Annual Governance Statement. This report summarises key issues arising from work undertaken in the 2013/14 audit plan year.

2. BACKGROUND INFORMATION

2013/14 Audit Plan Progress

- 2.1 An effective Internal Audit Service, and the delivery of the audit plan, is a key aspect in obtaining assurance that a reliable control environment is in place. Completion of the Internal Audit Plan is monitored and reported regularly to this Committee. The latest position is provided in appendix A. Although some additional audits were required during the year due to emerging risks, there were other planned audits which were no longer required in 2013/14 due to assurances provided from other sources or revised implementation dates of key changes to the control environment. There is adequate plan cover overall to ensure there will be a sufficient level of completed planned work to provide an opinion on the adequacy of the control environment.

Significant Audit Findings

- 2.2 There are no significant control weaknesses to bring to the Committee's attention and there are no systems assessed as providing no assurance. One isolated investigation into flexi/ timesheet reconciliation in respect of an employee identified control weaknesses and reported an overall assessment of no assurance. However improvements have been made and further checks have been introduced as a result of the audit. Significant systems which were assessed as providing partial or limited assurance on the adequacy of internal control were followed up and retested. I am pleased to report the following progress:

- CareFirst (adults social care system) was one of the fundamental financial systems reported in the Internal Audit Annual report. The CareFirst system was assessed as 'partial assurance' due to none compliance with the council's information security policy in respect of access and password controls (although financial information tested was accurate and feeder system controls operated correctly, resulting in no material impact on the council's Statement of Accounts). The recent system upgrade has addressed most of these issues and password controls have been strengthened. Implementation dates for 2 agreed actions have been extended in order to secure a permanent solution.
- Adults Social Care Income Procedures – retesting has shown significant progress and has resulted in a re-evaluation of controls from 'partial' to 'adequate assurance'. Policies and procedures have been reviewed and updated and discrepancies identified at the previous audit have been addressed. The application of these arrangements will be tested later in the year.

Unfortunately audit follow up work on partnership governance arrangements did not demonstrate improvement in controls and the assurance level remains as partial. Further work to review all partnership risk management arrangements will be undertaken as part of the risk management action plan.

Follow up work on Freedom of Information and Data Protection reviews have not yet been finalised. Further updates will be provided at the Committee's next meeting.

Unplanned work

2.3 Requests for unforeseen and irregularity work continue to be received and 60% of the allocation set aside in the 2013/14 Audit Plan (165 days) has been used. Since April 2013, 15 investigations have been carried out. Three referrals received involve potential cases of personal internet access during work hours. Other investigations include timesheet/flexi sheet /mileage claim anomalies, petty cash discrepancies and failure to safeguard council assets. Not all cases have been concluded but so far 1 officer has resigned and another received a disciplinary warning.

2.4 Referrals received via the Whistleblowers' hotline have increased steadily over the last few years:

Year	Referrals received	Spurious calls
2010/11	221	34
2011/12	373	78
2012/13	378	81
2013/14 (April – July)	214	110

During 2013/14 the number of spurious calls has increased significantly as the telephone number is also mistakenly used for appeals queries.

All referrals are either investigated by Internal Audit or information is passed on to the Benefits Fraud Team for investigation. Over £8k Council Tax or Housing Benefits overpayments were referred through the whistleblowers' hotline since April.

Proactive counter fraud work

2.5 NFI

Good progress has been made in response to this year's National Fraud Initiative (NFI) data matching exercise. Internal audit received in excess of 5,300 matches, of which, 4,972 have already been checked and closed. Further information has been sought on the remaining matches and progress will be reported again in January. The council has an excellent track record in optimising NFI outputs and was commended by one of the Audit Commission's NFI coordinators who recently met with Internal Audit and Benefits Fraud officers to discuss our approach. Further improvements to current arrangements and opportunities for matching other data sets such as Personal Budgets were also discussed.

The Local Audit and Accountability Bill transfers the Audit Commission's data matching powers to Government. The future of the initiative has been determined and an official announcement was made in July that the National Fraud Initiative (NFI) will be retained and transferred to the Cabinet Office when the Audit Commission closes in 2015.

2.6 *Publicity and raising staff awareness*

The 10th edition of the council's counter fraud newsletter, Fraud Focus, is attached in appendix B. The newsletter provides useful information on national anti fraud initiatives such as Action Fraud, NFI and the Audit Commission's annual survey (Protecting the Public Purse). In addition practical advice is given to help recognise new and emerging fraud risks including frauds against schools, recruitment fraud and frauds targeting the vulnerable such as green deal and under occupancy scams.

The National Fraud Authority (NFA) has produced an elearning package. This will be tailored to meet the council's requirements and made available to all staff and members on the LearningLincs system.

Internal Audit Developments

2.7 At the April meeting Members were informed of the new Public Sector Internal Audit Standards (PSIAS). The audit team was informed of these requirements as part of an annual service development day which was held in July. Some minor adjustments to current procedures have been identified to ensure compliance to the Standards. These include:

- The revised definition of Internal Auditing has been incorporated into the audit charter (see appendix C).
- Report distribution and disclosure limitations to be included on new report templates.
- Significant requests for internal audit to carry out consultancy work are reported to the Audit Committee for approval.
- Any instances of failure to gain agreement to implement audit recommendations will be reported to senior management and the Audit Committee if they represent an unacceptable level of risk exposure to the council.
- Opportunities available to receive and provide independent assessments of service provision will be explored through the Chief Auditors' network and options will be presented for the Audit Committee to consider.

- 2.8 The council has introduced a commercial policy and pursuance of appropriate income generating opportunities is encouraged. The audit team has engaged in this approach and contributed to the services to schools brochure. In addition, a neighbouring authority has requested independent audit resource to validate one of their grant claims. In accordance with PSIAS the Audit Committee should approve consultancy work (if significant) and be assured there will be no detrimental impact on delivering the audit service to the council. The work will be completed on a commercial basis and within existing resources as the scale of the work is relatively small (approximately 5 days). In this case the request does not represent a significant level of consultancy work and should not therefore have any detriment impact on achieving the audit plan for the council. The Committee is asked therefore to note this request for work.
- 2.9 Legislative changes were introduced in June which impact on whistleblowing arrangements although good practice guidance has not yet been received. The National Fraud Authority (NFA) also published its national fraud indicators report in June which has been used to update the council's fraud risk assessment. Both of these developments will be considered in the refresh of the counter fraud strategy which will be reported to this Committee in January.

Response to External Audit Recommendations

- 2.10 Progress in implementing external audit recommendations are regularly reported to this Committee. At the June meeting External Audit presented their interim report which contained one recommendation, namely:
- 'At present staff who leave the Council are still able to access e-Financials until the end of the month they leave. We recommend that all staff have the access to e-Financials removed on the day they leave the Council to ensure that no inappropriate access is gained.'

This will be addressed as part of a single sign-on solution being introduced for e-Financials and all associated systems. This will link e-Financials access to the users' network password. Access to e-Financials will therefore be removed at the same time as the IT disable the users network access. The work is due to be completed by 31 March 2014.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider whether or not the report provides sufficient assurance on the adequacy of internal control arrangements. The Committee is invited to consider the report and seek clarification on its contents as necessary.

4. ANALYSIS OF OPTIONS

- 4.1. The progress report provides the Committee with an update on key internal control issues. It complies with professional guidance and is designed to provide the Committee with the assurance required to fulfil its role effectively.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1. There are no additional resources implications however regular reviews of internal control help safeguard the council's assets and help ensure that value for money is achieved in the use of resources.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1. An Integrated Impact Assessment is not required.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1. Consultation takes place with Directors and key staff at all stages of audit work and comments made are incorporated wherever possible.

7.2 There are no conflicts of interests to declare.

8. RECOMMENDATION

8.1. That the Audit Committee consider the level of assurance provided by this report on the adequacy of internal control arrangements.

DIRECTOR OF POLICY AND RESOURCES

Civic Centre
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB

Author: Carol Andrews

Date: 27 August 2013

Background Papers used in the preparation of this report: None

Appendix A

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
Fundamental Financial Systems	<ul style="list-style-type: none"> • All 2012/13 fundamental audits completed (see Asset Management) • Payroll • Creditors • Debtors • Income Receipting • Main Accounting Ledger • Council Tax and Housing Benefits • Local Taxation • Treasury Management • Asset Management (completed after year end – to consider External Audit work) • CareFirst • Benefits Subsidy testing (in progress) <p>All waiting in year transaction testing.</p>	<ul style="list-style-type: none"> • TLMS (leisure income system) • CareFirst – follow up 	
Annual Governance Statement	<ul style="list-style-type: none"> • In year monitoring and compilation of the Statement 		
Corporate management	<ul style="list-style-type: none"> • Preparing reports and Audit Committee attendance 		
Corporate Governance	<ul style="list-style-type: none"> • In year monitoring and advice. Evaluation of council arrangements against best practice standards. Revision of the council's Code of Corporate Governance (in progress) • Revised Governance Arrangements – authorisations (completed) 		
Risk Management	<ul style="list-style-type: none"> • In year monitoring and advice. Risk Management Group work. Annual review of risk management arrangements, strategic and key operational controls. (2012/13 completed – 2013/14 not yet due) 		

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
IT Audit	<ul style="list-style-type: none"> • I S / I T Strategy (completed) • Disaster Recovery and Business Continuity (completed) • Government Connect (in progress) • Project Management Controls (in progress) • IT Charging Policy • Change Control • Remote Access – follow up (in progress) • Internet/ E Mail Controls – follow up (in progress) • Security of Mobile Devices 		
Contract Audit	<ul style="list-style-type: none"> • Commissioning – e auctions (in progress) 		
Fraud Prevention and Detection	<ul style="list-style-type: none"> • Responding to cases received via Whistleblowers Hotline and email (in progress) • Publicity/ training/ updating the counter fraud strategy (in progress) • Income audits - Building Control (completed), Commercial Property (in progress), Fresh Start (completed), Search Fees, Normanby Hall (completed), Waters Edge (in progress) • Data Matching - NFI/IDEA (in progress) 		
Council-wide Systems	<ul style="list-style-type: none"> • Performance Management (completed) • Data Quality (2012/13 completed – 2013/14 not yet due) • Environmental Issues - CRC Energy Efficiency Scheme Return & evidence pack (in progress) • Partnerships (completed) • New Legislation - Localism (completed) • Budgetary Control • Data Protection and FOI (in progress) • Social Media (completed) • Income and Corporate Charging Policy • Information Governance • Public Health Responsibilities • Self Service Portal • Payment Card Industry – Data Security Standard 	<ul style="list-style-type: none"> • Information governance framework 	<ul style="list-style-type: none"> • Integrated Impact Assessments– (assurance obtained through risk management work)

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
People – Adult Services	<ul style="list-style-type: none"> • Safeguarding Adults • Assessment of Care • External Residential Care 	<ul style="list-style-type: none"> • Adult Income Procedures – follow up (complete) • Financial Assessment and Review - follow up (complete) • Personal budgets – in progress 	
People – Specialist	<ul style="list-style-type: none"> • Child protection - compliance with Public Law (completed) • Children in care – foster care (completed) • Allegation Management Policy • Youth Offending Team (in progress) 		
People – School Improvement	<ul style="list-style-type: none"> • Issues from School Audits • Schools audits (in progress) • Alternatives to Schools Education (completed) • Education Welfare (Fines) 	<ul style="list-style-type: none"> • Procurement declaration • SFVS assurance 	
People – Commissioning and Localities	<ul style="list-style-type: none"> • Budgetary Control • Advice, Assessment and Affairs -follow up (completed) • Personal Budget Calculation • Maintenance of School Buildings • Integrated Youth Support (Grants) • Troubled Families Programme (completed) 		
Policy & Resources - Finance	<ul style="list-style-type: none"> • Bank Account Changes (completed) • Finance Manual, Regs. & S.O.s (ongoing) • Car Plan (in progress) • Efficiencies (in progress) • Welfare Reforms (in progress) • Pensions assurance (completed) • LT&B Shared Service Governance Arrangements • CT discounts/ NNDR reliefs and appeals - budget implications (in progress) 		

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
Policy & Resources - Human Resources	<ul style="list-style-type: none"> • Casual & Agency workers (completed) • Professional Personnel System • Training and Development (in progress) • Pay Policy/ Allowances & Supplements (completed) • Disciplinary Procedures 		
Policy & Resources - Legal Services	<ul style="list-style-type: none"> • Councillors' Allowances • Legal services – Child Protection (completed) • Gifts and Hospitality / Pecuniary Interests Procedures (in progress) • Private Law Cases • RIPA • VCS Funding (in progress) 		
Policy and Resources – Business Support	<ul style="list-style-type: none"> • PANNEL 		
Places – Customer Services	<ul style="list-style-type: none"> • Transport – Concessionary fares (completed) • Complaints • Community Grants (completed) • Contract Management – Leisure 		
Places – Technical & Environment	<ul style="list-style-type: none"> • Contaminated Land (completed) • Home improvements & disabled adaptations –follow up (in progress) • Safer Neighbourhoods • Countryside Stewardship • Emergency Planning and Business Continuity (in progress) • Homelessness • Civica AP Document/ Imaging System (in progress) 		

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
Places – Planning and Regeneration	<ul style="list-style-type: none"> • Economic Development (completed) • BDUK Project (ongoing) • Regional Growth Grant (in progress) • Bees Knees • Advance Crosby • Development Control 		<ul style="list-style-type: none"> • Procurement framework (due deferred tendering)
Places- Community Services	<ul style="list-style-type: none"> • Flood Management • Waste Management – commercial waste income (in progress) • Waste Management contract • Community Transport (Wheels to work) • Building Cleaning – Commercialism (in progress) • Schools Catering – Commercialism (in progress) • Highways Alliance -closedown 	<ul style="list-style-type: none"> • Household recycling centres income collection 	


In addition to the above resources were deployed on : <ul style="list-style-type: none"> • Advice /irregularity work • Follow up work • Audit plan performance monitoring and reporting 	
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fraud focus

North Lincolnshire Council's counter-fraud newsletter **No. 10** Summer 2013

New fraud risks



In its report 'Protecting the public purse', the Audit Commission said that councils have been targeting their investigative resources more efficiently and effectively and have detected more than 124,000 cases of fraud in 2011/12 valued at £179m.

Schools targeted p3

However, they must not drop their guard because new frauds are emerging in areas such as business rates, right to buy housing discounts and schools. The Audit Commission have produced two useful guides:

- Fraud Risks in Schools – Advice for School Governors
- Fraud Risks in Parish and Town Councils – Advice for councillors

Both freely available as PDF documents on their website: audit.commission.gov.uk

Action Fraud

A major development in the fraud world is the nationwide introduction of 'Action Fraud'. This is now a national centre of expertise that will receive and collate all reports of fraud and fraud intelligence. They will then collate all information and then send it back out to the respective police forces to investigate.

It will allow for 'the bigger picture' to be considered, rather than individual forces just looking at isolated incidents.

Action Fraud is the UK's national fraud and internet crime reporting centre. It provides a central contact point for information about fraud and financially motivated internet crime. If you've been scammed, ripped off or conned, there is something you can do about it. [Report fraud](#) to Action Fraud and receive a police crime reference number.

Action Fraud is not an emergency service - dial 999 if you are in immediate danger.

Action Fraud
Report Fraud & Internet Crime
0300 123 2040

Strategy approved

Our Counter Fraud Strategy was refreshed and approved at the Audit Committee in January. The Strategy is available on the council's website and is worth a read. It will also be available on the intralinc along with other useful information following a review of the Internal Audit webpages.



Green Deal scam p4

Holidays: beware booking crooks

ABTA – The Travel Association has launched a new campaign with the support of Get Safe Online, Action Fraud and the City of London Police's [National Fraud Intelligence Bureau \(NFIB\)](#) to warn the public about the dangers of holiday booking fraud. New research by the NFIB shows close to 1,000 cases of holiday fraud reported in 2012 costing consumers approximately £1.5 million.

Consumers have paid money only to discover the accommodation, holiday, or flight they paid for doesn't exist, or the booking hasn't been made. Fraudsters scam millions of victims using fake websites, false advertising, bogus phone calls and phishing emails.

Common types of holiday booking fraud:

- Airline tickets – where you believe you are booking a flight and receive a fake ticket or pay for a ticket that never turns up. This is the most common scam, representing 45% of holiday booking fraud reported to police in 2012.
- Holiday accommodation – 33% of holiday fraud victims in 2012 were scammed by the

fraudulent advertisement of holiday villas and apartments. Some arrived at their destination to discover they had nowhere to stay. A high percentage of cases were reported in Spain and in London during the Olympics. Self-catering villa rental sites where owners advertise directly make this a common target for fraudsters.

- Package holiday fraud – fraudsters like to target those booking group, sports and religious packages with deals and special offers. Major events in long-haul destinations are a particular target, such as the pilgrimage to the Hajj and major sporting events such as The Ashes. This is because these events are often expensive due to high demand so deals can be attractive and many travellers are booking on behalf of a group, meaning the value of the booking is high.
- Visa applications – particularly the ESTA visa requirement for the US, also appear to be an emerging target for fraudsters.

There is a useful link to the ABTA Guide to Holiday Fraud on the Action Fraud Website.

Booking online

- A thorough online search will find reviews that reveal more about the holiday or company.
- Check the website address that appears in the top window is correct. Fraudsters can clone legitimate websites but will change the last part of the address, such as from co.uk to .org.
- Make sure the company is a member of a recognised trade association such as ABTA. You can verify membership on www.abta.com. ABTA is the UK's biggest travel trade

association. Its 1,200 members adhere to its Code of Conduct.

- If entering personal or payment details online, ensure the site you book on is secure (with a padlock in the address bar and address beginning 'shttp' or 'https').
- Where possible, book with a credit card (or a debit card that offers protection). Do note, however, that there may be a surcharge for this.
- Check terms and conditions to confirm exactly what you are buying and don't be afraid to ask questions. A legitimate company will

answer your queries straight away or get back to you.

Booking a self-catering villa/apartment

- Fraudsters often use villa rental websites to advertise villas or apartments that don't exist. Most scams occur on sites where owners advertise accommodation directly. If you book a villa or apartment online, avoid using these sites if you want absolute reassurance.
- Never pay directly into an owner's bank account.
- Book with a company that will arrange the contract on your behalf.

Local news

Annual Fraud Survey

The Audit Commission annual survey has been received recently and was completed by the deadline date, 17 May 2013. The results of our survey are collated with those of other councils and reported through the Audit Commission publication 'Protecting the Public Purse' and indicate whether fraud against public sector bodies is rising or falling and in which fraud areas. Our counter fraud arrangements



Blue badges and bus passes can be targets of fraud

scored highly in their checklist of best practice.

National Fraud Initiative

The council participates in the National Fraud Initiative each year. Our benefits, creditors, payroll, pensions, council tax, insurance and licensing data is compared with that of other bodies including the Department for Works and Pensions to identify:

- Benefit fraud
- Employee Fraud
- Council Tax
- Pensions Fraud
- Tenancy Fraud, and
- Overpaid creditors, and
- Blue Badges and Concessionary Fare passes issued to those no longer eligible

Since its introduction in 1996 the NFI has identified over £1 billion of fraud, overpayment and error. Some national headline findings were reported recently by CIPFA

Better Governance Forum, for example

- 15,000 fraudulent pension cases resulting in £450 million of fraud
- 100,000 fraudulent council tax single residents costing councils £160 million
- £250 million of benefits Fraud identified
- 68,376 blue badges and 97,631 concessionary fares passes cancelled.

In January the council received its matches: some 59 reports containing over 7,000 potential matches are currently being investigated. The 2010-12 exercise has concluded and it was reported to the Audit Committee that the last exercise identified £208k of savings to the council (£175k benefits, £20k council tax and £13k creditor overpayments).

The outcome of the 2011-13 data matching exercise will be reported to the Audit Committee.

Frauds against schools

Fraudsters are targeting schools in areas such as:

- Unsolicited invoices – fraudsters will send invoices to schools claiming to be for entries into telephone directories, recruitments journals etc
- Academies or schools which have their own bank accounts or a school fund are open to

other types of fraud such as:

- Fraudulent standing orders
- Online banking frauds
- Purchase of goods online

When the council receives information relevant to schools we will email alerts warning of the possible risks.

Green Deal scam

Caerphilly Trading Standards have been made aware of fraudsters door knocking offering citizens free funding for various green initiatives and home improvements, all they ask is for an upfront administration fee to undertake tasks on behalf of the homeowner. The government's Green Deal allows for businesses and individuals to pay for

green initiatives through savings on their energy bills.

The Green Deal can only be delivered through government contracted assessors and providers identifiable by a unique government allocated number. Consumers are advised to look out for the Green Deal Approved quality mark.

Under-occupancy reduction



Pembrokeshire Council is warning other areas that fraudsters in their area are targeting the elderly about the bedroom tax implemented in April 2013.

The fraudsters have cold called pensioners stating they will need to measure their spare bedrooms. The bedroom tax however only applies to those claiming housing benefit whilst living in a council or housing association property.

If you receive such a call, report it to the council. Our Local Taxation and Benefits Manager said that this tax affects working age claimants only, not pensioners, and advises if a tenant has a visit from someone claiming to be from the council, they should ask for identification.

Recruitment Fraud

Major employers such as the Department for Transport have reported that fraudsters have placed fake adverts in papers offering jobs, when recipients make contact they can be asked for a fee for an application form or a Criminal Reference Bureau check. Action Fraud reminds us that reputable employers would never ask for such fees.

Truancy fines



A local authority received reports from concerned parents that they have been contacted by fraudsters posing as the council to collect payment for the truancy of their children.

The Team Leader for the Education Welfare service has stated that all our education penalty notices are issued in paper format with unique reference numbers; payment

would not be requested over the phone.

Nationally there seems to be a rise in cases where fraudsters are seeking fines or upfront fees often posing as a council or reputable company. The council would never cold call and ask for money. Sums owed to the council would be requested through formal invoices sent through the post.

Debbie Baker

01724 296103

Helen Asher

01724 296046

Caroline Wilson

01724 296050

Hotline

01724 296666

If you have any comments or suggestions on this newsletter, please email

Debbie.baker@northlincs.gov.uk

Public Sector Internal Audit Standards

Definition of internal audit

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.'