

Audit and Governance Committee

6 June 2006

Report of the Assistant Director (Audit and Risk Management)

Annual Report of the Chief Internal Auditor

Summary

- 1 This report details the outcome of audit and fraud work undertaken in 2005/06 and provides an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

Background

- 2 The work of Internal Audit is governed by the Accounts and Audit Regulations 2003 (as amended) and the CIPFA Code of Practice for Internal Audit in Local Government (issued in 2003). In accordance with the Code of Practice, the Chief Internal Auditor is required to report on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Statement of Internal Control.
- 3 The 2005/06 Audit and Fraud Plan was agreed by Resources EMAP on 21 March 2005. The Plan included a programme of audit reviews and details of planned counter fraud activities. The total number of planned audits days was 1,460. However, there were still insufficient resources in the Audit team to allow all the systems or areas identified through the 5 year Strategic Audit planning process to be audited. As with the 2004/05 Audit Plan, priority was therefore given to 'high' and 'medium' risk areas. The counter fraud activity plan was based on the resources available to the Fraud Team. The total number of days allocated to counter fraud activities in 2005/06 was 1,090.
- 4 The Counter Fraud Activity Plan included details of;
 - planned activities, including fraud detection and investigation;
 - fraud awareness and training;
 - proactive fraud work;
 - joint working with other counter fraud agencies;
 - resource allocation.

2005/06 Internal Audit Plan – Outturn

- 5 Two of the priorities for the service are to deliver at least 90% of the Audit Plan and to ensure that Internal Audit continues to retain its 'managed audit' status with the Audit Commission. These are the minimum requirements necessary to achieve a good score for internal control as part of the Use of Resources CPA assessment process.
- 6 Internal Audit successfully delivered 91.3% of the 2005/06 Plan (compared to 90% in 2004/05 and 69% in 2003/04). Details of the audits completed and the reports issued are given in Annex 2.
- 7 Variations were made to the Audit Plan through the year as a result of new and changed priorities or as new risks were identified. In addition, there was also a shortfall in resources of 80 days against the original approved 2005/06 Audit Plan. Although the available staffing resources were targeted at the priority audit areas, it was not possible to accommodate all the required work within the overall number of planned days. The variations, including those necessary to balance the Plan were made in accordance with the framework previously agreed with Resources EMAP. Details of the Audit Plan variations approved by the Assistant Director (Audit and Risk Management) and agreed by the S151 Officer (Director of Resources), are given in Annex 3. These variations were reported to Resources EMAP on 20 February 2006.
- 8 Seven investigations into suspected financial irregularities were undertaken in the year. Four of those investigations were completed and three are still ongoing. In addition, fourteen minor thefts and frauds were investigated. Due to the serious nature of the issues covered in two of the investigations it was considered appropriate to report the results of those investigations to the Resources EMAP meeting on 20 February 2006. Both investigations related to the Commercial Services Directorate and were launched in response to allegations raised by individuals using the Council's whistleblowing procedures. One of the investigations related to recruitment and selection procedures and the other to the appointment and use of sub-contractors. Significant control weaknesses were identified in both areas. Officers from Commercial services have subsequently reported remedial action plans to Commercial Services EMAP setting out how the issues raised will be dealt with by that Directorate. Annex 4 provides a summary of the audit findings for all the completed investigations together with details of the recommendations made to address any control weaknesses identified.
- 9 During the year Internal Audit developed a more robust and systematic methodology for preparing the annual Statement of Internal Control (SIC), which is published as part of the Statement of Accounts. The SIC forms an important part of the overall process for monitoring and reporting on the adequacy and effectiveness of the Council's governance arrangements, particularly those in respect of risk management and internal control. Preparation of a SIC has been a statutory requirement since 2003/04, although authorities were permitted to publish interim statements in the first year. The process necessary to prepare the 2004/05 SIC had to comply with guidance issued by CIPFA

and endorsed by the Audit Commission. The process included the completion of assurance statements by individual directors, the Monitoring Officer and the S151 Officer. The adequacy and effectiveness of key corporate controls was assessed and action plans agreed where weaknesses were identified. The 2004/05 SIC was approved by Members and published as part of Council's Financial Statements in October 2005. The process followed to compile the SIC was reviewed by the Audit Commission and described as robust and well documented.

2005/06 Counter Fraud Activity Plan – Outturn

- 10 Counter fraud work has been undertaken in accordance with the approved Plan. Annex 5 provides a summary of the work completed. The majority of the work undertaken by the Fraud team during the year related to the identification and investigation of suspected fraudulent Housing and Council Tax benefit claims. However, the team has also worked closely with Internal Audit on the internal fraud investigations detailed in paragraph 8 above. This integration makes best use of the available expertise and the scarce audit and fraud resources. It also creates a critical mass, allows skills to be shared and provides for more flexibility. In addition, a number of other external fraud investigations were conducted, including the identification of fraudulent blue badge use and Council Tax single person discounts. Details of the investigations undertaken and, prosecutions and sanctions achieved in the year are given in Annex 6.
- 11 In addition to the planned work, the Fraud team formally completed a joint project with the Department for Work and Pensions (DWP) on suspected 'living together' benefit fraud. The project started in 2003 and was funded by the DWP. The investigatory work undertaken concentrated on claimants who were suspected of not declaring partners, particularly lone parents over the age of 36. In total, 50 investigations were carried out and fraud was proved in 36 of those cases. The investigations found a number of other types of fraud including undeclared work, capital and income. The total value of fraudulent benefit overpayments identified was approximately £578k, of which £194k related to Housing and Council Tax benefits administered by the Council. In addition, 29 of the 36 individuals have not claimed any further benefits since the fraud was discovered. It is estimated that this has saved a further £600k to date in ongoing benefits. The investigations resulted in 18 successful prosecutions, including one undertaken by Trading Standards for 'obtaining money by deception'.
- 12 The Fraud team also completed work on the Audit Commission's 2004/05 National Fraud Initiative data matching exercise. This is a national exercise which is undertaken every two years and is designed to detect fraud and error, particularly in respect of housing benefits, occupational pensions and student loans. Data from local authorities is matched against data provided by central government, the NHS and a number of participating private sector pension bodies. The data match itself was undertaken in December 2004 and resulted in 1,637 matches for York which required further investigation. In some cases the match

was found to be caused by erroneous data or simply timing differences between when the relevant datasets were obtained. In many cases responsibility for investigating the data match rested with other local authorities or public bodies. In total, 62 investigations into suspected Housing and Council Tax benefit fraud were undertaken. These investigations have identified over £49k in fraudulent overpayments and have resulted in 1 successful prosecution and 4 sanctions, to date. A total of 14 cases are still being investigated.

External Assessment by the Audit Commission and the Benefit Fraud Inspectorate (BFI)

- 13 The work of the internal audit and fraud teams is reviewed annually by the Audit Commission. In addition, the counter fraud activities carried out in respect of housing and council tax benefits are reviewed by the Benefit Fraud Inspectorate (the BFI). The Audit Commission review has two main purposes. The first is to ensure that the standard of work and the capacity of the audit and fraud teams is sufficient for external audit assurance purposes. This is important because it determines whether the Council will maintain 'managed audit status' and hence minimise the level of external audit fees charged by the Audit Commission. The second purpose is to examine the Council's internal control arrangements through the Use of Resources – key lines of enquiry (KLOE) assessment process. The outcome of the KLOE assessment process contributes to the Council's overall CPA score. The Audit Commission concluded that there had been a significant improvement in the contribution of Internal Audit to the Council's overall system of internal financial control. The Audit Commission has also confirmed that it can continue to place reliance on the work undertaken by Internal Audit.
- 14 The last full inspection conducted by the BFI was in 2004, at which time they concluded that the quality of counter fraud work being undertaken was effective. Counter fraud activities form part of the 'security' assessment under the revised CPA process which was introduced by the BFI in 2005. The 2005 CPA self assessment process scored 'security' as a 4 (excellent). This contributed to the improvement in the overall Benefits Service CPA score from 1 to 3.

Opinion of the Chief Internal Auditor

- 15 The audit and fraud work undertaken during the year is designed to provide assurance to members and officers on the adequacy of the control environment as an essential part of the Council's corporate governance framework. Audit testing has also been undertaken so as to provide assurance to the S151 Officer that proper arrangements exist for the administration of the Council's financial affairs.
- 16 The reports detailed in Annex 2, together the results of investigations into suspected fraud and corruption, have been sent to the relevant directors, service managers, and where necessary to the S151 Officer. All audit reports include recommendations and actions plans agreed with

the relevant parties aimed at remedying identified weaknesses in control. In addition, follow up reviews are conducted on a 6 monthly basis to track progress made by managers in implementing agreed recommendations. Details of significant control weaknesses and any other issues of note identified through the audit process in 2005/06, together with the results of the follow up reviews, including details of recommendations which remain outstanding, are shown in annex 2.

- 17 The opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment is given in Annex 1. The opinion is based on the results of the audit and fraud work completed during the year. In giving this opinion attention is drawn to the following significant control weaknesses which are considered relevant to the preparation of the 2005/06 Statement of Internal Control;
- evidence of non-compliance and inconsistencies in observing EU procurement legislation and the Council's Financial Regulations across the Council when tendering for goods and services. These failings have been identified in a number of the audits completed during the year and are in addition to the specific breaches included in the annual Breaches and Waivers report – presented to Resources EMAP in October 2005;
 - evidence that the Council's recruitment and selection policy is not always followed when recruiting new staff, and the policy itself does not contain sufficient guidance for managers to ensure that they comply with all relevant employment legislation;
 - controls over cash handling in the cashiers section were weak and as a result failed to prevent the serious theft which occurred in July 2005. The control weaknesses also meant that the Council was unable to identify the perpetrators.
 - risk management arrangements, particularly those in respect of operational risks are still not sufficiently embedded within the Council.
- 18 During the year, the Council has addressed a number of the concerns previously raised by the District Auditor in their annual audit letters, as well as the significant control weaknesses identified in the 2004/05 SIC. These improvements include the creation of a new Officer Governance Group, which reviews governance arrangements and reports to Corporate Management Team. Revised Financial Regulations and a new Constitution (including the creation of the new Audit and Governance Committee) will also come into effect in 2006/07.

Consultation

- 19 Not relevant for the purpose of the report.

Options

- 20 Not relevant for the purpose of the report.

Analysis

21 Not relevant for the purpose of the report.

Corporate Objectives

22 This report contributes to the overall effectiveness of the Council's internal management & assurance arrangements in helping to achieve the following corporate objectives;

- Ensure probity, integrity and honesty in everything we do (Objective 8.3).
- Provide accurate and transparent management information in a timely and effective manner (Objective 8.3).
- Improve the forward planning, openness, propriety, speed and effectiveness of decision-making (Objective 8.4).
- Continue to provide sound and timely financial management, and improve medium and long term financial planning. (Objective 8.6).
- Manage the Council's property, IT and other assets on behalf of York residents. (Objective 8.9).
- Implement risk management and business continuity procedures. (Objective 8.10).

Implications

23 The implications are;

- **Financial** – there are no financial implications to this report.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there are no legal implications to this report.
- **Crime and Disorder** - there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.

Risk Management Assessment

24 The Council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the results of audit work are not reported and the annual statement and opinion of the CIA is not

considered by those charged with governance. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when this is re-assessed in 2007.

Recommendations

25 Members are asked to;

- Note the results of the audit and fraud work undertaken in 2005/06.

Reason

To enable Members to consider the implications of audit and fraud findings.

- Accept the opinion of the Chief Internal Auditor on the adequacy and effectiveness of the Council's internal control environment;

Reason

To enable Members to consider the opinion of the Chief Internal Auditor.

- Consider the significant control weaknesses identified during the year and their inclusion in the 2005/06 Statement of Internal Control, to be reported to A&G on 26 June 2006 along with the annual Statement of Accounts.

Reason

To enable the annual Statement of Internal Control to be prepared.

Contact Details

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Report Approved



Date 25 May 2006

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

Internal Audit Risk Assessment and Strategic Audit Plan

2005/06 Audit Plan

2005/06 Counter Fraud Activity Plan

Opinion of the Chief Internal Auditor

I have evaluated the results of the audit and fraud work undertaken during the year. In my opinion the overall adequacy and effectiveness of the Council's control environment is acceptable. In addition, continued reliance can be placed on the Council's arrangements for financial administration.

Signed

Liz Ackroyd
Assistant Director – Audit and Risk Management
24 May 2006

Annex 2

2005/06 Audits Completed and Reports Issued

Systems/establishment audits

An overall opinion is given following each audit review. The opinion is based on the following four categories;

Opinion	Assessment of internal control
“High standard”	Few or no weaknesses
“Acceptable”	A number of weaknesses but mostly insignificant
“Weak”	A number of weaknesses, mostly significant
“Not acceptable”	Major control weaknesses

Recommendations are made where weaknesses in control are identified. The recommendations are prioritised using the following categories;

Definition of Priority

“High”	Necessary to reduce or prevent the risk of significant financial loss, damage to reputation, disruption to a service or continuity of operations, or necessary due to legislative requirements.
“Medium”	Necessary to improve controls so as to reduce the risk of

financial or other preventable losses.

“Low” Helpful to the operation of the system or considered to be ‘best practice’.

28 draft reports have been issued and are currently with management for consideration and comments. These reports are categorised as follows;

Opinion	Number
“High standard”	4
“Acceptable”	9
“Weak”	4
“Not acceptable”	0
“Not given”	1

A further 5 reports are due to be issued shortly.

38 reports have been finalised. In all cases the recommendations made have been accepted by management, and will be subject to follow up by Internal Audit. Details of the finalised reports are summarised below;

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of ‘high’ priority	
Best Value Performance Indicators	19/9/05	Not given	5	0	The review was undertaken in conjunction with the Audit Commission. 28 indicators were tested. One of those indicators was qualified and a further two were subject to

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
					recalculation.
Local Public Service Agreements	1/2/06	Not given	N/A	N/A	No specific issues identified.
Commercial Services – Finance and administrative arrangements	9/5/06	High Standard	0	0	No specific issues identified.
Discretionary Charging	15/5/06	Weak	16	4	The audit found a number of control weaknesses including a lack of documented procedures, insufficient separation of duties, poorly defined roles and responsibilities and inadequate arrangements to recover arrears. The audit also found weaknesses in management information, a lack of performance targets and delays in the completion of financial assessments.
Children's Residential / Respite Accommodation	3/1/06	Acceptable	5	0	No significant weaknesses identified.
Home to School	15/11/05	Not given	N/A	N/A	A follow up review to ensure that the

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Transport – Follow Up					recommendations contained in the 2004/05 audit report have been implemented. 5 of the original 15 recommendations had been implemented. 1 recommendation was no longer considered to be relevant due to a restructure of the service following the original audit, and good progress was being made to address the remaining issues.
Engineering Consultancy	4/11/05	High standard	1	0	No significant weaknesses identified.
Nursery Education Grants	9/5/06	High Standard	1	0	No significant weaknesses identified.
Private Finance Initiative	10/2/06	Not given	0	0	This was a limited review of the payment system for the schools' PFI scheme. Systems were only just coming into operation at the time of the audit, and it was not possible to carry out detailed testing. A further review will be undertaken in 2006/07.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Oaklands Sports Centre	23/2/06	Acceptable	14	2	Controls over the checking, recording and holding of daily cash income needed to be improved.
Wigginton Primary School	31/10/05	Weak	14	4	A number of control weaknesses were identified, including inadequate arrangements to receipt and record income and no procedures to record declarations of interest and gifts and hospitality. There was also no scheme of financial delegation in place. In addition, the inventory records needed to be improved.
Archbishop of York's CE Primary School	31/10/05	Acceptable	10	0	A register of gifts and hospitality needed to be introduced and the school fund and inventory records improved. The procedures for recording school meals also needed to be improved.
Heworth CE Primary School	25/4/06	Weak	16	0	A number of control weaknesses were found including the arrangements to record and hold income. In addition, there were no procedures to record the receipt of gifts and hospitality. The school

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
					fund and inventory records needed to be improved and the scheme of financial delegation was in need of review.
Carr Junior School	20/10/05	High Standard	4	0	No significant weaknesses identified.
St Aelred's RC Primary School	24/3/06	Acceptable	7	0	A register of gifts and hospitality needed to be introduced and the inventory records improved.
Ralph Butterfield Primary School	13/2/06	Acceptable	12	0	A register of gifts and hospitality needed to be introduced and the inventory records improved.
New Earswick Primary School	16/2/06	High Standard	6	0	No significant weaknesses identified.
Derwent Junior School	24/3/06	Acceptable	13	0	There were some weaknesses in the ordering procedures. A register of gifts and hospitality needed to be introduced and the school fund and inventory records needed to be improved.
St Lawrence's CE	11/4/06	Weak	13	0	There were some weaknesses in the

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Primary School					ordering procedures. A register of gifts and hospitality needed to be introduced and the school fund and school meals records needed to be improved.
Headlands Primary School	18/5/06	High Standard	6	0	No significant weaknesses identified.
Tang Hall Primary School	4/4/06	High Standard	6	0	No significant weaknesses identified.
Our Lady's RC Primary School	18/5/06	Weak	18	1	Control weaknesses were found in the ordering procedures and in respect of cash banking and security. The school fund and inventory records needed to be improved.
Yearsley Grove Primary School	23/5/06	Acceptable	8	0	Control weaknesses were found in the ordering procedures. Controls over the receipt and recording of income also needed to be improved.
Burnholme Community College	3/2/06	Acceptable	13	2	Control weaknesses were found in the contracting procedures. There were no procedures to record the receipt of gifts and hospitality, and the arrangements for

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
					updating the register of interests needed to be improved. The school fund and inventory records also needed to be improved.
Huntington School	5/10/05	Acceptable	8	0	Controls over the receipt and recording of income needed to be improved.
Joseph Rowntree School	9/5/06	High Standard	3	0	No significant weaknesses identified.
Manor CE School	9/5/06	Acceptable	11	0	Control weaknesses were found in the income procedures and there were no procedures to record the receipt of gifts and hospitality. The school fund and inventory records also needed to be improved.
Danesgate Pupil Referral Unit	3/2/06	Acceptable	8	1	Control weaknesses were found in the arrangements for undertaking budgetary control and there were no procedures to record the receipt of gifts and hospitality. The school fund and inventory records also needed to be improved.
St Oswald's Special Unit	7/3/06	High	2	0	No significant weaknesses identified.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
		Standard			
IS/IT Strategy	6/3/06	Acceptable	3	0	The IS/IT Strategy needed to include resource implications and timescales. The Strategy also needed to be formally reviewed on a regular basis and responsibility for monitoring delivery more clearly defined.
IT Physical Security and Environmental Controls	23/5/06	High Standard	3	0	No significant weaknesses identified.
Duplicate Payments	8/3/06	Not given	4	1	This was a limited review of creditor payments using audit interrogation software. A small number of duplicate payments were found and therefore recommendations were made to improve the controls which prevent payment of duplicate invoices.
Cashiers	4/5/06	Acceptable	1	0	A follow up review to ensure that recommendations contained in the 2004/05 audit report and the subsequent investigation report, had been implemented. 11 of the 19 recommendations had been implemented

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
					and 3 superseded. Good progress had been made to address the remaining issues. One additional recommendation was also made.
Treasury Management / Prudential Code	10/5/06	Acceptable	5	1	Password controls to the on-line banking system needed to be improved. Additional authorisation controls were also required for processing large value transactions.
Travel and Subsistence	30/1/06	Weak	8	2	Corporate contracts were not always being used. Controls over authorising payments and document retention needed to be improved. Arrangements for checking on insurance and driving licences also needed to be improved.
Follow –Up	22/3/06	Not given	0	0	A follow up review was undertaken in July 2005 to ensure that recommendations contained in audit reports issued in the previous six months, had been implemented. A total of 91 recommendations were made in the reports reviewed. 71 (78%) of the

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
					recommendations had been satisfactorily implemented. A further 17 (19%) had either been partially implemented or plans existed to address the issues. Only 3 recommendations had not been implemented. Two of these were relatively minor issues. The other outstanding recommendation was a 'high' priority and related to the failure to comply with EU procurement legislation for the purchase of concessionary travel tokens. The auditors were told that there was insufficient time to carry out a full tender exercise for the purchase of tokens in 2006/07. The EU procurement regulations will however be followed for the 2007/08 financial year.
Highways Maintenance Contract	26/4/06	Not given	2	0	A review of financial, contract, operational and strategic management issues associated with the new highways maintenance contract.
Breaches and Waivers	5/7/05	Not given	N/A	N/A	A review of non compliance with Financial Regulations and EU Procurement

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
					legislation. A copy of the report was presented to Resources EMAP in October 2005.

Other Work Completed

- 3 DTI grant claims audited on behalf of DEDS.
- 2004/05 Statement of Internal Control prepared and published as part of the annual Statement of Accounts.
- Value for Money review of Environmental Services (Environmental Health, Trading Standards and Licensing Services)
- 1 school fund audit completed
- 2 reports produced for the York Museums Trust
- taking a lead role in a joint ARM review of the Highways Maintenance procurement exercise
- Sickness Management review

Annex 3

Variations to the Audit Plan

Additions to the Plan are considered where;

- Specific requests are received from the S151 Officer which are necessary for him to discharge his statutory responsibilities.
- New or previously unidentified risks result in changes to the Strategic Audit Plan priorities
- Significant changes in legislation, systems or service delivery arrangements occur which have an impact on audit priorities
- Requests are received from customers to audit specific services, systems or activities usually as a result of weaknesses in controls or processes being identified by management
- Urgent or otherwise unplanned work arises as a result of investigations into fraud and other wrongdoing identifying potential control risks

Additions to the Audit Plan are only be made if the proposed work is considered to be of a higher priority than work already planned, the change can be accommodated within the existing resource constraints and the change has been reviewed and approved by the AD (Resources) Audit and Risk Management.

Audits are deleted from the Plan or delayed until later years where;

- specific requests are received from the S151 Officer or the audit customer and the grounds for such a request are considered to be reasonable
- the initial reason for inclusion in the Audit Plan no longer exists.

All additions and deletions are reviewed and approved by the AD (Resources) ARM who then reports all variations to the S151 Officer for information.

2005/06 Audit Plan Variations

The following variations to the Plan were approved by AD (Resources) ARM in 2005/06, and reported to Resources EMAP on 20 February 2006;

Project	Days	Justification For Change
<u>Additional Work</u>		
Sickness Management and Monitoring project	+ 60 days	Review of the Council's arrangements for recording, monitoring and managing sickness absence. The review was requested by the Corporate Management Team.
Highways Maintenance Contract	+ 20 days	Support to a review of the procurement process followed in respect of the new Highways Maintenance contract. The review was requested by the Chief Executive.
Total additional work	+ 80 days	

Project	Days	Justification For Change
<u>Deletions from the Audit Plan</u>		
New Depot	- 10 days	Audit deferred to 2006/07 due to delay in depot move.

Project	Days	Justification For Change
Children with Disabilities	- 15 days	Audit deferred to 2006/07 due to transfer of children's services to new Directorate. Other work completed in the year has also overlapped with aspects of this audit. This audit is a low risk in the Strategic Audit Plan.
Social Services Capital Programme	- 10 days	Audit deferred to 2006/07. This audit is a medium risk in the Strategic Audit Plan.
Business Continuity	- 18 days	Deferred until 2006/07 at the request of the audit customer because of the introduction of new legislation.
Local Transport Plan	- 12 days	Deferred until 2006/07 at the request of the audit customer because of work currently underway to prepare new Plan.
National Land and Property Gazetteer	- 10 days	Deferred until 2006/07 because the system is not yet fully operational.
Sure Start	- 12 days	Deferred until 2006/07 due to external review of the service by the Audit Commission.
Risk Management / Insurance	- 10 days	New risk management system currently being implemented. This area was reviewed in 2004/05 and a further audit is not considered to be a priority.
IT Project Management	- 14 days	Deferred until 2006/07 due to current pressures within the IT Department caused by ongoing projects.
Total deletions	- 111 days	

Annex 4
Completed Investigations into Suspected Financial Irregularities

Nature of Investigation	Findings and Conclusions
Theft of money from cashiers	<p>The systems and controls associated with the receipt, recording and banking of cash were reviewed. Staff were interviewed and assistance was provided to the police with their investigation into the theft.</p> <p>The police were however unable to identify the cause of the theft and subsequently closed their enquiry.</p> <p>However, weaknesses in the control of cash after it had been prepared for banking were found. An action plan has been agreed to address these weaknesses and to prevent a similar loss in the future.</p>
Inappropriate use of Council funds	<p>An inappropriate payment was identified and stopped before it was despatched. The investigation found that this was an isolated problem. The manager concerned was instructed to follow the correct procedures in the future.</p>
Recruitment and selection	<p>The investigation found that there was a lack of appropriate documentation and a failure to follow the Council's recruitment and selection policy. The investigation also found a number of control weaknesses. An action plan was agreed to address these weaknesses and to prevent similar problems in the future.</p>

Nature of Investigation	Findings and Conclusions
Use of sub-contractors	The investigation identified breaches of Financial Regulations, poor management practices and various weaknesses in control. These weaknesses included inadequate arrangements for the inspection of work and the checking of job tickets and invoices. A report is due to be presented to Neighbourhood Services EMAP detailing the action taken to address the issues identified in the audit report.

**Annex 5
Counter Fraud Activity**

Activity	Work Completed or in Progress
Training	The source and type of fraud referrals received has continued to be monitored. This has influenced the fraud awareness training delivered through the year to Benefits and Housing staff, including new starters. Laminated aide-memoir's giving staff advice on making fraud referrals and taking referrals from the public have been prepared and distributed to those staff likely to identify suspected fraud. Fraud referrals from staff have increased in number and quality as a consequence of these measures.
Public and Internal Fraud Awareness	A programme of staff and public awareness was delivered in March 2006. The programme included a series of radio and press advertisements and articles, together with publicity for a new facility to report fraud by e-mail. In conjunction with this a programme of fraud awareness measures within the Council was delivered. The programme included articles in staff newsletters and publications and greater web-site presence. The publicity has generated an increase in fraud referrals which is currently being analysed.
Advice and Guidance	Advice and guidance has been provided on the design and implementation of measures to prevent and detect fraud and other financial irregularities. Examples include changes to the design of benefit claim forms and the implementation of security measures in Council establishments and offices.
Data Matching	In addition to participating in national data matching exercises (NFI and HBMS) the Fraud Team has also undertaken a local exercise to compare taxi licensing records against benefit data. The information was then used in a joint exercise with the police, customs and excise, taxi licensing and investigators from the DWP. Further data matching exercises are currently being developed.
Targeted Visits	A programme of unannounced visits has been completed, targeting specific properties and claimants suspected of committing residency related fraud.

Joint Working with Other Agencies	Where appropriate the Fraud team has taken part in joint exercises with other agencies and/or conducted joint investigations. Examples include a joint exercise with the DWP, police and trading standards to identify counterfeit traders at a car boot sale and a joint investigation with HM Revenue and Customs which resulted in a successful prosecution of an individual who had failed to declare the ownership of a number of rented houses.
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Annex 6 Investigations, Prosecutions and Sanctions

840 fraud referrals were received in the year of which 393 (47%) were accepted for investigation.

	2005/06 Target	2005/06 Actual	2004/05 Actual
Number of fraud investigations undertaken	400	509	680*
Prosecutions	22	35	13
Administrative Penalties	18	11	7
Cautions	18	19	4

* Note – the number of fraud investigations was high in 2004/05 due to the NFI exercise and an increase in HBMS data matches. Following the BFI inspection the Fraud team started to sift referrals and only to investigate those cases where there was considered to be sufficient evidence to suspect fraud. The new approach has increased the % of successful outcomes.

Performance of the fraud team is also measured and reported through three statutory Best Value Performance Indicators. Performance for 2005/06 was as follows;

	2005/06 Target	2005/06 Actual	2004/05 Actual	Comments
BVPI 76b – Number of investigators per 1000 caseload	0.34	0.51	0.44	The improvement against 2004/05 performance reflects the investment made by Members which resulted in the appointment of 2 additional

	2005/06 Target	2005/06 Actual	2004/05 Actual	Comments
				investigators in 2005/06, slightly offset by an increase in the overall caseload.
BVPI 76c – Number of investigations completed per 1000 caseload	36.00	43.33	60.37	This reflects the improvements made in assessing initial referrals prior to investigation, as recommended by the BFI. As well as improving the number of successful outcomes this initiative has led to a significant improvement in the average caseload per investigator (from approximately 70 cases in 2004/05 to 45 in 2005/06. This has moved us significantly closer to the level recommended by the BFI, of 30 cases per investigator.
BVPI 76d – Number of sanctions/prosecutions per 1000 caseload	3.70	5.53	2.13	This is a significant achievement and reflects the additional investment made by Members during 2005/06 and the new arrangements for screening referrals.