

Audit and Governance Committee

21 December 2009

Report of the Assistant Director for Resources (Customer Service and Governance)

Audit and Counter Fraud Mid-Term Monitor

Summary

- 1 This report provides details of the progress made in delivering the internal audit and counter fraud work plan for 2009/10. Members are also asked to consider and approve revised Terms of Reference for Internal Audit.

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. In accordance with the Code of Practice, the 2009/10 Audit and Fraud Plan was approved by the Audit and Governance Committee on 29 June 2009. The Plan included a programme of audit reviews and details of planned counter fraud activities. The total number of planned audit days was 1,420. 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 2009/10 was 1,282.
- 3 It was also recognised that changes might need to be made to the Audit Plan through the year as a result of new or changed priorities and/or as new risks were identified. To reflect the new contractual relationship between the council and Veritau, all proposed variations to the agreed Audit Plan arising as the result of emerging issues and/or requests from management are subject to a Change Control process. Where the variation exceeds 5 days then the change must be authorised by the Assistant Director of Resources (Customer Service and Governance) who is the client manager for the service. All agreed variations will then be communicated to the Audit and Governance Committee for information.
- 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.

2009/10 Internal Audit Plan – Progress to Date

- 5 Two of the priorities for Veritau are to deliver at least 90% of the Audit Plan and to ensure that the service continues to operate to recognised professional standards (as determined by the Code of Practice). These are the minimum requirements necessary to achieve a good score for internal control as part of the Use of Resources assessment process.
- 6 Internal Audit successfully delivered 94.2% of the 2008/09 Audit Plan. 18% of the 2009/10 Audit Plan had been completed by 30 November 2009. This figure is however based on reports issued and does not take into account further audit fieldwork which is either complete or in progress. Based on the current work programme it is anticipated that the 90% target will be achieved. Details of the audits completed and the reports issued since the last progress report to this Committee (on 29 June 2009) are given in Annex 1.
- 7 As noted in paragraph 3 above, it has been necessary to make a number of variations to the Audit Plan to accommodate a shortfall in resources and changes in priorities. Details of the Audit Plan variations approved by the client manager to date are given in Annex 2.

2009/10 Counter Fraud Activity Plan – Progress to Date

- 8 Counter fraud work has been undertaken in accordance with the approved Plan. Annex 3 provides details of the investigations completed and provides a summary of the work undertaken. As in previous years, the majority of the work undertaken relates to the identification and investigation of suspected fraudulent housing and council tax benefit claims. However, the team also works jointly with Internal Audit on internal fraud investigations.

Breaches of Financial Regulations

- 9 There have been no significant breaches of the council's financial regulations identified during the course of internal audit work in 2009/10 to date. However, a number of relatively minor breaches have been noted. Details of these breaches are summarised in annex 4.

Developments in Service Delivery - Internal Audit

- 10 A number of changes have been made to audit working practices to ensure consistency in service delivery to both York and North Yorkshire County Council. These changes are summarised below:

- (a) Staff at North Yorkshire have migrated to the Galileo.net working papers application hosted by CYC. All internal audit staff in Veritau are therefore now using a single combined database. The application supports the audit planning process, enables auditors to document the results of their work and report their findings, and allows audit recommendations to be tracked. As well as ensuring consistency the system also improves the availability and quality of performance and other management information associated with the delivery of the service.
- (b) A revised risk assessment methodology has been adopted for audit planning purposes. The new methodology is intended to ensure greater consistency in the assessment of risks across the council's systems, services and activities.
- (c) A new audit report has been adopted. The new format is designed to be clear and concise, allowing managers to easily see any significant issues or key risks which have been identified during the audit. The new reporting process also places an emphasis on reaching agreement with management on the measures necessary to address any control weaknesses found.
- (d) New wording has been adopted for the audit opinions and recommendations. The new wording is designed to reflect the role of internal audit, which is to provide assurance to management and those charged with governance. The amended wording is also intended to ensure greater consistency and be less susceptible to misinterpretation. Details of the new audit opinions and recommendations are given in Annex 1.
- (e) A revised Customer Satisfaction Survey has been developed to enable more accurate feedback to be obtained from audit customers.

Developments in Service Delivery – Counter Fraud

- 11 A number of service developments are taking place in respect to counter fraud. Veritau has recently conducted an exercise using an on-line survey to assess fraud awareness across the two councils. Approximately 300 managers in each council were invited to participate in the exercise. The results of the survey are currently being analysed but they should help to identify any gaps in the existing counter fraud arrangements. The outcomes will be reported to a future meeting of this Committee and will feed into the drafting of the Annual Governance Statement for 2009/10.
- 12 Veritau has also recently purchased a fraud awareness e-learning application. Once configured, the application will provide:
 - (a) an efficient and cost effective method of raising awareness of the risks of fraud and corruption across different staff groups within both councils.

- (b) good evidence of proactive counter fraud measures for the Use of Resources assessment.
- 13 Planning has started for the Audit Commission's next National Fraud Initiative (NFI) data matching exercise. The intention is to streamline the process across both councils so as to minimise unnecessary duplication of effort.
- 14 Planning work is also starting on a proactive counter fraud exercise designed to identify social housing related fraud. The exercise is part of a wider national exercise being promoted by DCLG. The intention is to use data interrogation software to support the exercise.
- 15 Veritau has recently been awarded the contract to provide benefit fraud investigation services to Ryedale District Council. The contract provides the opportunity to build greater resilience and capacity in the existing counter fraud team, and to deliver efficiencies through economies of scale and reduced duplication.

Internal Audit Terms of Reference

- 16 The CIPFA Code of Practice recommends that the purpose, authority and responsibility of Internal Audit should be formally defined in terms of reference which are consistent with the Code. The existing Terms of Reference (ToR) for Internal Audit were formally approved by this Committee in April 2007. A number of changes are now required to the ToR. In particular, the new organisational arrangements for Internal Audit, following the transfer of audit and counter fraud services to Veritau Limited on 1 April 2009, need to be recognised. The opportunity has also been taken to make a number of other relatively minor amendments to reflect changes in current working practices. The revised ToR for Internal Audit are attached at annex 5. The revised ToR have substantially changed and so tracked changes are not shown.

Consultation

- 17 Not relevant for the purpose of the report.

Options

- 18 Not relevant for the purpose of the report.

Analysis

- 19 Not relevant for the purpose of the report.

Corporate Priorities

- 20 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. In doing so it contributes to the corporate objective of making the council an Effective Organisation.

Implications

21 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

22 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 to those charged with governance and the Terms of Reference for Internal Audit are not kept up to date. This in turn would adversely impact on the council's Use of Resources assessment score.

Recommendation

23 Members are asked to:

- (a) Note the results of the audit and fraud work undertaken to date in 2009/10.

Reason

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

- (b) Note the variations to the 2009/10 Audit Plan, approved to date by the Internal Audit Client Manager (see annex 2).

Reason

To enable Members to consider the delivery of the Internal Audit Plan.

- (c) Consider and approve the updated Internal Audit Terms of Reference (see annex 5)

Reason

To enable ensure that the council complies with the CIPFA Code of Practice.

Contact Details

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Report Approved



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Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

- 2009/10 Internal Audit Plan
- 2009/10 Counter Fraud Activity Plan

Annexes

Annex 1 – 2009/10 Audits Completed and Reports Issued
Annex 2 – Variations to the 2009/10 Audit Plan
Annex 3 – Counter Fraud Activity
Annex 4 – Summary of Breaches of Financial Regulations
Annex 5 – Terms of Reference for Internal Audit