



Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE **Thursday, 21st June, 2012**

Place: Council Chamber
Civic Offices, High Street, Epping

Room: Council Chamber

Time: 7.00 pm

Democratic Services Officer Gary Woodhall
Office of the Chief Executive
Tel: 01992 564470
Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors A Watts (Chairman), C Finn and Ms S Watson

Independent Mrs M Peddle (Vice-Chairman) and R Thompson

1. WEBCASTING INTRODUCTION

I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit.

2. APOLOGIES FOR ABSENCE

3. DECLARATIONS OF INTEREST

To declare interests in any item on this agenda.

4. MINUTES

To confirm the minutes of the last meeting of the Committee held on 5 April 2012

(previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. CORPORATE GOVERNANCE GROUP - 14 MARCH 2012 (Pages 5 - 8)

(Director of Finance & ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 14 March 2012.

7. CORPORATE GOVERNANCE GROUP - 25 APRIL 2012 (Pages 9 - 14)

(Director of Finance & ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 25 April 2012.

8. CORPORATE GOVERNANCE GROUP - 23 MAY 2012 (Pages 15 - 22)

(Director of Finance & ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 23 May 2012.

9. AUDIT COMMISSION NATIONAL LOCAL GOVERNMENT STUDIES - NATIONAL FRAUD INITIATIVE 2010/11 (Pages 23 - 82)

(Chief Internal Auditor) To consider the attached report (AGC-001-2012/13).

10. INTERNAL AUDIT ANNUAL REPORT 2011/12 & REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT (Pages 83 - 96)

(Chief Internal Auditor) To consider the attached report (AGC-002-2012/13).

11. ANNUAL GOVERNANCE STATEMENT 2011/12 (Pages 97 - 110)

(Chief Internal Auditor) To consider the attached report (AGC-003-2012/13).

12. Q4 INTERNAL AUDIT MONITORING REPORT 2011/12 (Pages 111 - 130)

(Chief Internal Auditor) To consider the attached report (AGC-004-2012/13).

13. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

14. EXCLUSION OF PUBLIC AND PRESS

Exclusion:

To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement:

Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

- (1) all business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest;
- (2) at the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press; and
- (3) any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:

Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

- (a) disclose any facts or matters on which the report or an important part of the report is based; and
- (b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

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Agenda Item 6

EPPING FOREST DISTRICT COUNCIL CORPORATE GOVERNANCE GROUP MEETING

WEDNESDAY, 14 MARCH 2012
(9.30 - 10.50 AM)

Present: D Macnab (Acting Chief Executive) (Chairman) B Bassington (Chief Internal Auditor), C O'Boyle (Director of Corporate Support Services) and R Palmer (Director of Finance and ICT), G Lunnun (Assistant Director Democratic Services)

Apologies for Absence: I Willett (Assistant to the Chief Executive)

Place: Room 1.05, First Floor, Civic Offices, High Street, Epping, Essex

98. MINUTES OF THE PREVIOUS MEETING - 15.2.12

Agreed subject to:

- (i) insertion of the word "the" before the word "Trust" in Minute 85(a) (Minutes of the meeting on 14.12.11);
- (ii) substitution of "151" for "155" in Minute 91 (Officer Employment Procedure Roles).

99. MATTERS ARISING

(a) EFDC v Savva – Legal Proceedings (Minute 94)

Noted that the Judge had advised the defendant to obtain proper legal advice and that following an approach to the Citizens' Advice Bureau the advice given to Mr Savva had been that it was not a good idea to write such a letter.

100. DECLARATIONS OF INTEREST

None for this meeting.

101. TERMS OF REFERENCE

Noted.

102. AUDIT & GOVERNANCE COMMITTEE - ANNUAL REPORT 2011/12

Noted that the report had been written in the style requested by the Audit and Governance Committee. Agreed report subject to correction of typographical errors.

Action:

- (1) B Bassington to correct typographical errors; and
- (2) B Bassington to seek views of Members of the Committee on the report.

103. AUDIT & GOVERNANCE COMMITTEE (AGC) - REVIEW OF ARTICLE 11

Considered a draft report for the Constitution and Members Services Scrutiny Panel in June 2012. Noted that the proposals would not be in place for the Annual Council meeting this year but that the report could be drawn to the attention of the Appointments Panel, in particular the aspects concerning the qualities expected of members to be appointed to the Audit and Government Committee.

Questioned how “aptitude, experience or interest” in recommendation (2)(d) could be tested - Committee Member Role Accountability Statement, decision of Group Leader or other?

Questioned appropriateness of the use of the words “over familiarity” in paragraph 13.

Questioned whether paragraph 11.12(d) would be applicable if the Chairman was an Independent Member.

Noted the comments made on the draft report by R Thompson (Independent Member):

(a) in relation to the reference in the report to the difficulty of finding more Independent Members it was considered that this should be left in as it was not a weak point as it reflected the difficulty experienced in recruiting such members;

(b) suggested inclusion of a reference to replacement of a member mid-term – questioned whether there should be a different standard applied to the Audit and Governance Committee from any other Committee of the Council; pointed out that there were only five meetings of the Committee each year and there might be a good reason for a member missing the first and/or second meetings;

Questioned who would judge whether attendance record was acceptable; questioned whether standard would be applicable to only Independent Members as intimated in the proposals section under paragraph 15;

(c) Meaning of next available Council meeting – considered preferable to next “normal” Council meeting which term was not recognised in the Constitution etc;

(d) References to the appointment of Chairman and Vice-Chairman – agreed the need for consistency.

Action:

I Willett to revise report taking account of views expressed and any further views to be made by existing members of the Audit and Governance Committee.

104. AUDIT & GOVERNANCE COMMITTEE - SUBMISSION OF CGG MINUTES

Agreed draft report to the Audit and Governance Committee subject to the deletion of the words “in relation to the current practice” in the recommendation.

Action:

Report to be included on the agenda for the next Committee meeting.

105. RISK MANAGEMENT - EFFECTIVENESS OF ARRANGEMENTS

Agreed draft report for the Audit and Governance Committee subject to expansion of the section regarding risk management in directorates to refer to risk assessments being undertaken in relation to capital projects etc.

Action:

R Palmer to revise report.

106. GRANT CLAIM CERTIFICATION 2010/11

Noted the report of PKF to be made to the Audit and Governance Committee.

Action:

PKF to present report to Committee.

107. INTERNAL AUDIT - DRAFT PLAN 2012/13

Considered the draft Audit Plan 2012/13 being submitted to the Finance and Performance Management Cabinet Committee on 19 March 2012.

Agreed that the reference to an audit of Local Area Agreements was not applicable as these were no longer in existence. An audit of Local Commissioning/Community Budgets might be applicable in the future but would be premature for 2012/13.

In relation to the audit of Corporate Procurement it was agreed that this should include checks to ensure compliance with the requirement to seek quotations from local businesses.

Action:

B Bassington to amend Plan after Finance and Performance Management Cabinet Committee.

108. LOCALISM ACT 2011 - GENERAL POWER OF COMPETENCE

Agreed report to be submitted to Extended Management Board.

Action:

Report to be included on agenda for EMB.

109. STANDARDS COMMITTEE**(a) Complaints – Assessments, Reviews, Investigations and Adjudications**

Schedule noted.

(b) Future Standards Arrangements

Noted report of the Standards Committee to be submitted to the Council on 27 March 2012.

(c) Repeat Training Session

Noted the arrangements for a repeat training session for District and Parish/Town Councillors on 23 March 2012 at 7.00 p.m.

110. ANY OTHER BUSINESS

(a) Job Evaluation

C O'Boyle drew attention to some issues arising from the results of recent Job Evaluation Panel meetings.

Action:

C O'Boyle to discuss issues with P Maginnis to determine whether existing procedures are sufficient or whether there is a need for additional procedures.

111. DATE FOR FUTURE MEETINGS

25 April 2012 at 9.00 a.m. in Acting Chief Executive's Office.

**EPPING FOREST DISTRICT COUNCIL
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 25 APRIL 2012
(9.30 - 10.40 AM)**

Present: D Macnab (Acting Chief Executive) (Chairman) B Bassington (Chief Internal Auditor), C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT) and I Willett (Assistant to the Chief Executive)

**Apologies for
Absence:**

Place: Room 1.05, First Floor, Civic Offices, High Street, Epping, Essex

112. MINUTES OF THE PREVIOUS MEETING - 14.3.12

Agreed subject to minor typographical corrections to Minutes 103 and 105 and to minute 110(a) (Job Evaluation) being amended to read as follows:

“C O'Boyle drew attention to some issues regarding the appeals process in respect of Job Evaluation decisions”.

113. MATTERS ARISING

None for this meeting.

114. DECLARATIONS OF INTEREST

None for this meeting.

115. TERMS OF REFERENCE

Noted.

116. EXTERNAL AUDIT - CONSULTATION ON ARRANGEMENTS FOR 2012/13 AND SUBSEQUENT YEARS

The Corporate Governance Group considered a letter dated 16 April 2012 concerning the re-appointment of PKF (UK) LLP to audit the accounts of the District Council for five years from 2012/13, the re-appointment taking effect from 1 September 2012.

The Corporate Governance Group noted that the Audit Commission had completed a procurement process to outsource the work of its in house audit practice and that the Commission had a statutory duty to appoint external Auditors to Local Government and NHS bodies under Section 3 of the Audit Commission Act 1998. The Act also required the Commission to consult local government bodies on the proposed appointment.

The letter went on to explain the timetable for any Council to make objections to the proposed re-appointment of the company which would require the Commission to respond by Friday 8 June 2012.

The Chief Finance Officer reported on informal consultations regarding the Audit Commission's letter which he had conducted with members of the Audit and Governance Committee. The Corporate Governance Group noted that this had attracted expressions of concern about the method of procuring PKF in terms of competitive quotations and value for money. He explained that the appointment of external Auditors was a matter for the Audit Commission and there was no requirement for this Council to conduct its own competitive exercise. Furthermore, the Corporate Governance Group noted that Contract Standing Order C1/1 stated that "where there is a conflict between Standing Orders, financial regulations and any statutory requirements, the Council must comply with statutory requirements".

In view of this, Corporate Governance Group agreed that the appointment of PKF (UK) LLP should be supported and that no adverse comments made to the Audit Commission on this matter.

ACTION:

R Palmer to pursue.

117. STANDARDS COMMITTEE

(a) Localism Act 2011 – New Standards Regime for Parish and Town Councils

Corporate Governance Group received the notes of a meeting held on 11 April 2012 between the Monitoring Officer and Deputy Monitoring Officer and four representatives of local Parish and Town Councils. It was noted that the purpose of the meeting was to discuss a proposal that Parish and Town Councils in the District should establish their own Standards Committee rather than affiliating to the new District Council Standards Committee. At the meeting, a draft constitution prepared by the four Parish Council representatives was discussed and various amendments made.

It was noted that a further meeting would be held in order to take forward the idea, although concern had been expressed by the Parish representatives about the need to raise awareness among other Parish and Town Councils so as to gain support for the proposal.

The Monitoring Officer commented that advice had recently been received from the National Association of Local Councils on a new Code of Conduct and also Standards Committee arrangements. A particular point of concern had been NALC's view that if Parish Councils were operating a Standards Committee they would not be able, under the provisions of the Localism Act 2011, to undertake complaint investigations as these were still matters for the Monitoring Officer. The Monitoring Officer commented that this was a correct interpretation of the Act but did not prevent the District Council's Standards Committee delegating its role on complaints to a Parish Council Standards Committee.

Corporate Governance Group noted the position and asked that a further item be placed on the next Local Councils' Liaison Committee agenda (5 July 2012) to review

the arrangements for the Parish Standards Committee. It was accepted that not all Parish and Town Councils might wish to sign up to this proposed Committee and that it was possible that some Parish Councils would not wish to be involved in a Standards Committee at all, or might choose to affiliate to the District Council Committee. It was noted however that whatever arrangements were finally operated, the responsibilities of the Monitoring Officer, in respect of the District and all Parish and Town Councils, would remain unaltered.

(b) Localism Act 2011 – District Standards Committee

Corporate Governance Group noted that the Council had agreed to hold a special Council meeting on 18 June 2012 to give consideration to proposals for the new Standards regime to operate at District Council level. This would include the terms of reference of the Standards Committee, the complaints procedure and a Code of Conduct. It was noted that a number of external organisations were publishing model Codes of Conduct but that work continued in the PLP to develop final documentation based on the drafts already available.

(c) Complaints – Assessments, Reviews, Investigations and Adjudications

Corporate Governance Group reviewed the current schedule of complaints received under the present complaints regime. The position was noted as follows:

- (a) EFDC 2/2011 – to be deleted from the schedule as a review and assessment decision had already taken place and the deadline for further appeal had passed;
- (b) 3/2011 – complaint withdrawn. Monitoring Officer to visit the Council concerned, after the elections, to discuss governance and Code of Conduct issues;
- (c) 4/2011 – to be removed from the schedule as complainant has agreed not to pursue the matter at this time, pending the outcome of the planning process.;
- (d) 5/2011 – remove from schedule. Initial assessment and review now taken place with original decision upheld;
- (e) 2/2012 – anonymous complaint by several Parish Councillors. Not being pursued as anonymous complaints are not accepted. Monitoring Officer and staff to attend Parish Council meeting on 26 April 2012 to discuss this and related issues;
- (f) 3/2012 – complaint referred to Planning Enforcement for investigation. Subject member revising registration of interest form;
- (g) 4/2012 – no complaint yet received;
- (h) 5/2012 and 7/2012 – complaint by member of staff and District Councillor concerning conduct of a Parish Councillor – referred for assessment on a date to be arranged;
- (i) 6/2012 – complaint referred to Monitoring Officer for advice to be given to the subject member.

ACTION:

I Willett to place item on Local Councils' Liaison Committee regarding Code of Conduct/Standards Committee.

118. CGG MINUTES - SUBMISSION TO AUDIT & GOVERNANCE COMMITTEE

Corporate Governance Group noted that the Audit and Governance Committee, at its meeting on 5 April 2012, considered a report concerning future arrangements for the submission of Corporate Governance Group minutes to that Committee.

It was reported that the Audit and Governance Committee had asked for the following action to be put in hand:

- (a) drafting of minutes of the Corporate Governance Group to be more explanatory and circulated by email as and when published;
- (b) Audit and Governance Committee members to draw attention of officers to any issues they would like to have discussed at the Audit and Governance Committee;
- (c) that a narrative report of the Corporate Governance Group based on the minutes of the meeting and comments made by members of the Audit and Governance Committee on those minutes should be submitted to the Committee twice a year, in future, with such reports being dealt with in either public and/or private session, depending on the content;
- (d) that the arrangements outlined above should be reviewed after one year.

Corporate Governance Group agreed these arrangements.

ACTION:

I Willett to pursue.

119. ANY OTHER BUSINESS

(a) Cabinet Agenda Planning Group – Requests for Reports

The Chief Finance Officer raised an issue concerning the arrangements for notifying Directors of the need to submit reports to Cabinet meetings following consideration at the Cabinet Agenda Planning Group.

It was noted that at the last meeting of the Agenda Planning Group, a Director had been asked to submit a report to the following Cabinet meeting but the report had not actually found its way onto the agenda.

It was agreed that if such requests for reports arose at Agenda Planning Group meetings, references to the need for a report should be included in the minutes of the meeting and also to notify the Director concerned immediately following the Agenda Planning Group meeting.

Concern was also expressed about the Forward Plan of future Cabinet and non executive decisions which had to be published on the website under the Local Government Act 2000.

It was noted that although the Forward Plan for several Directorates was very full and gave a clear indication of business over a considerable period, other Directorates/Portfolios had a very limited list which was felt to be unhelpful to the public. It was also noted that there might be circumstances where key decisions (as statutorily defined) might miss the list and with this in mind, it was agreed that Management Board should be reminded about the need to (a) keep the Forward Plan up-to-date; and (b) bearing in mind the need to designate key decisions where appropriate.

ACTION:

I Willett to refer to Management Board.

(b) Furniture Exchange Scheme

The Chief Finance Officer raised the question of release of District Development Fund (DDF) resources in respect of the Furniture Exchange Scheme.

Corporate Governance Group noted that the Council had now been notified that the scheme would operate under the auspices of a limited company with four persons serving on the Board, including two District Councillors. It was noted also that a request had been made for payment to be made in advance of expenditure being incurred by the limited company.

The Chief Finance Officer made the point that this would be a departure from the Council's normal procedures and in view of the amount of funding involved, he considered it appropriate for the release of the funds to be on the authority of the Cabinet.

Corporate Governance Group therefore asked for a report to be drafted for a future Cabinet meeting to outline the aims and objectives of the scheme, the previous decision in principle to support the venture and the process to be adopted in releasing funds to the limited company so as not to create a liability for EFDC in terms of any direct relationship.

ACTION:

C Overend to draft report for a future Cabinet meeting, taking advice from Legal Section and Accountancy on the detailed arrangements which should operate.

(c) Directors' Governance Assurance Statement 2011/12

The Chief Finance Officer raised the reporting deadlines in respect of the Governance Assurance Statement for 2011/12. It was noted that all responses from Directors were required by 10 May 2012 in order to facilitate a report to the next appropriate meeting of the Corporate Governance Group and to the Audit and Governance Committee thereafter.

It was agreed that a reminder should be sent to all Directors about the need to complete this return which should, in the first instance, be referred to B Bassington.

ACTION:

R Palmer to pursue.

Directors to note.

(d) Gift Registration

The Monitoring Officer notified Corporate Governance Group that she had received an invitation to the FA Cup Final in 2012 and that this was via her husband who had been allocated tickets as a Partner of Berwin Leighton Paisner, being able to take a client or a spouse to the event.

The Monitoring Officer pointed out that she would be attending the event as his wife rather than as a client of Berwin Leighton Paisner but bearing in mind the ongoing work that the company were undertaking on the Langston Road development, she had circulated a written note to other Corporate Governance Group members and had asked for a note of the offer to be placed on her personal file with her declaration of interest.

The Corporate Governance Group noted the action taken.

(e) Buckhurst Hill Parish Council – Support from Human Resources

The Monitoring Officer referred to the decision of Corporate Governance Group on 18 January 2012 to approve a Service Level Agreement in connection with the recruitment of a new Parish Clerk and possible further advice concerning that Council's staff establishment etc. It was noted that the intention was to devise a Service Level Agreement which protected the Council from any risk in giving the advice and very clearly placing responsibility for decisions on the HR issues concerned with the Parish Council rather than the District Council, the latter acting in a purely advisory capacity. It was noted that the Service Level Agreement was intended to operate on the basis of a full recharge of costs for the support.

The Monitoring Officer stated that she would be investigating whether or not the work currently being undertaken for the Parish Council exceeded the terms of the original brief and the exact nature of the contractual arrangements which were in operation.

ACTION:

Monitoring Officer to report back.

120. DATE FOR FUTURE MEETINGS

23 May 2012 at 9.30 am in the Acting Chief Executive's Office.

**EPPING FOREST DISTRICT COUNCIL
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 23 MAY 2012
(9.30 - 11.35 AM)**

Present: D Macnab (Acting Chief Executive) (Chairman) B Bassington (Chief Internal Auditor), C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT) and I Willett (Assistant to the Chief Executive)

**Apologies for
Absence:**

Place: Room 1.05, First Floor, Civic Offices, High Street, Epping, Essex

121. DECLARATIONS OF INTEREST

None for this meeting.

122. MINUTES OF THE PREVIOUS MEETING -25.4.12

Agreed.

123. MATTERS ARISING

(a) Gift Registration (Minute 119(a))

Noted that the Chairman of the Audit and Governance Committee had requested further information on this minute and that a reply had been sent explaining the steps which had been taken to declare and register the gift concerned.

(b) Furniture Exchange Scheme (Minute 119(b)) (Furniture Exchange Scheme)

Noted that this minute had been queried by members of the Audit and Governance Committee in terms of potential risks to the Council.

The Corporate Governance Group noted that a reply had been sent outlining the steps being taken to minimise the risk to the Council and confirming that a clear Cabinet Decision was required in respect of this scheme before any Council funding was released.

(c) Buckhurst Hill Parish Council – Support from Human Resources

It was noted that members of the Audit and Governance Committee queried this minute. It was explained that the terms of a Service Level Agreement with the Parish Council concerned was still being investigated but it had been the intention that the responsibility for decision-making in connection with human resources and related matters at the Parish Council would remain solely the responsibility of that Council.

ACTION:

C O'Boyle to report back.

(d) Corporate Governance Group Minutes – Electronic Versions

Noted that the Chairman of the Committee had asked for more detailed descriptions of electronic documents relating to past sets of Committee Governance Minutes by reference to the date of the meeting and that this will be included in future.

ACTION:

I Willett to pursue.

124. TERMS OF REFERENCE

Noted.

125. AUDIT COMMISSION - NATIONAL LOCAL GOVERNMENT REPORTS AND STUDY ON NATIONAL FRAUD INITIATIVE (NFI)

The Corporate Governance Group received a report from the Performance Improvement Manager on recommendations arising from a recent Audit Commission National Local Government Study on the National Fraud Initiative. The report outlined that NFI continues to play a key role in the fight against fraud and that the main types of fraud identified in England included pensions, Council Tax and Housing Benefit, where frauds of approximately £179,000,000 had been identified.

The Audit Commission went on to explain that the exercise had also produced other significant results including the dismissal of 164 employees due to having no right to work in the UK, 235 properties recovered for social housing, 321 false applications removed from the Housing Waiting List following a pilot with London Borough Council; 731 people who were prosecuted and 31,937 blue badges and 51,548 concessionary travel passes being cancelled.

The Audit Commission had concluded that most bodies had sound arrangements in place for managing the NFI and for investigating data matches but that there were still some scope for improvement. The report had recommended that all audited bodies should ensure they maximise the benefits of their participation in the NFI and in particular local authorities should take steps to retain the capability to follow up matches not related to Housing Benefit after the proposed single Fraud Investigation Service is introduced. The Government was recommended to require all Central Government Departments and their "arms length" bodies to take part in the NFI and bring forward orders to extend the Commission's data matching powers to non-fraud purchases. The DCLG and Homes and Communities Agencies were recommended to encourage all Housing Associations to take part in the NFI.

The Corporate Governance Group noted that a change of emphasis was likely to take place in the future in the approach by the Audit Commission on NFI issues in that it will continue to develop NFI with a flexible range of data matching services to tackle the emerging fraud threats and meet the needs of participants.

The Commission would work with the National Fraud Authority to deploy the NFI to support the implementation of the "Fighting Fraud Locally" initiative for Local

Government and would work with other organisations such as the Cabinet Office to extend the benefits of NFI more widely.

It was noted that the new approach to NFI had re-focused on prevention rather than detection and that this had already been addressed in the Internal Audit Work Programme for the current year, where a vacant post in the Internal Audit Section would be specifically allocated to look at all areas of NFI activity including Housing, Council Tax and Benefits. Existing work to achieve data matching would continue as at present and the Corporate Governance Group concluded that so far as this Council is concerned there was full compliance with the requirements of NFI and the Audit Commission and that there was no reason to suppose this would not continue.

ACTION:

S Tautz to prepare report for the next Audit and Governance Committee.

126. CORPORATE RISK REGISTER

The Corporate Governance Group received a copy on the current version of the Corporate Risk Register from the Chief Financial Officer on a recent meeting of the Risk Management Working Party where the register had been reviewed.

The register was agreed subject to the following alterations:

- (a) Page 74 (Risk Results) – Update Key Objectives to reflect recent Council decisions.
- (b) Risk 34 (Benefits) – Amend risk to A2.
- (c) Risk 3 (Local Plan) – Amend risk to B2 and amend supporting text to indicate that the National Planning Policy Framework would be in effect before the Local Plan is completed and also to clarify the wording regarding staffing issues.
- (d) Risk 9(a) (Depot Manager) – Amend supporting text to indicate that discussions are planned with Harlow Council regarding additional management resources.
- (e) Risk 35 (Budget Reduction) – No change in the risk bearing in mind the likelihood that Government budget restrictions were likely to continue for next year.
- (f) Risk 29 (Gypsy Roma Traveller Provision) – Remove vulnerability (c) but with no change in risk score.
- (g) Risk 33 (Reform of Housing Revenue Account) – No change in risk but amend supporting details to refer to additional debt incurred by the Council as a result of recent Government changes and uncertainties regarding Government policy on Right to Buy not yet being known.
- (h) Risk 22 (Key Partnership Fails) – Add reference in supporting statement to the LEP and amend references to the Localism Act.
- (i) Risk 5 (Local Government Re-organisation which is Detrimental to the Council and Community) – Amend supporting statement in respect of “debt free status”.

The Corporate Governance Group also noted that new risks had been identified in relation to electronic document management and that a report was being prepared to a future meeting of the Management Board on action required which would then be reflected at the next review of the Risk Management Register.

Corporate Governance Group agreed to the updates to the Risk Register for further consideration by the Audit and Governance Committee.

ACTION:

R Palmer to pursue.

127. ANNUAL GOVERNANCE STATEMENT 2011/12

The Corporate Governance Group reviewed the draft Annual Governance Statement for 2011/12 and this was agreed subject to various minor clerical amendments and to the following:

(a) Paragraphs 3.6 and 3.7 amend references to new Corporate Plan and new medium term aims.

(b) Paragraph 7.1.6 (Housing) – Amend references to EU Procurement in relation to the Mears contract for Housing Repairs Management.

(c) Paragraph 7.2.2 (Building Control) – Clarify the references to Building Control, Income and Planning fees to avoid confusion and clarify references to IT System issues relating to reconciliation processes.

The Corporate Governance Group cleared the draft Annual Governance Statement for submission to the Audit and Governance Committee at its next meeting.

ACTION:

B Bassington to pursue.

128. INTERNAL AUDIT MONITORING REPORT (JANUARY-MARCH 2012) - DRAFT REPORT TO AUDIT AND GOVERNANCE COMMITTEE

The draft Report and Monitoring Statement was approved subject to the following amendments and comments:

(a) Benefits data – follow up on non submission of data to Internal Audit by some Directorates.

(b) Paragraph 8 (Report) – finalise table of Performance Management Information.

(c) Add sections listed under “Directors Assurance” in Appendix 2 to the report regarding Housing Repairs and Corporate Procurement.

(d) Planning fees – ensure that the Monitoring report clarifies references to Building Control/Planning Fees to accord with the previously approved Governance Statement; and

- (e) include explanatory section regarding the limited assurance audit in respect of planning fees.

Corporate Governance Group also agreed that that proposed Audit Study in respect of Electoral Services (data quality) should be deleted from the deferred items for 2012/13 in view of the fact that data quality on Electoral Services is independently verifiable by the Electoral Commission.

ACTION:

B Bassington to finalise report for the Audit and Governance Committee.

129. INTERNAL AUDIT ANNUAL REPORT 2011/12 AND REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

The Corporate Governance Group considered a draft report for the Audit and Governance Committee at its meeting on 21 June 2012 on an annual report on Internal Audit which was combined with the required review of the effectiveness of the system of Internal Audit.

The Corporate Governance Group was satisfied with the conclusions of the Chief Internal Auditor that in overall terms, system controls throughout the Council were improving and that Directorates were becoming more committed to rectifying issues raised by Internal Audit. The group noted that the average cost per audit day for this Council was comparable with other Councils in the area and had been made more accurate as results of more analysis of the charging regimes for Broxbourne and Harlow Councils with which this authority was working in partnership.

The Chief Internal Auditor had concluded that in terms of the effectiveness of audit, the activities of his team were producing levels of assurance that were required of the Council. This had been confirmed by the Council's External Auditors (PKF) who had expressed satisfaction with the quality of the work being produced.

The Corporate Governance Group queried the rationale behind the level of achievement identified over the last two years which had remained constant but did not explain the reduced number of audit studies undertaken in the year 2011/12. The Chief Internal Auditor was asked to review the statement in order to make clear that the percentage achievement reflected decisions which were made about deduction of the Audit Programme for that year.

Otherwise, the Corporate Governance Group agreed the Annual Report and Review of the Effectiveness Statement for submission to the next Audit and Governance Committee.

ACTION:

B Bassington to pursue.

130. STANDARDS COMMITTEE

(a) Complaints, Assessments, Reviews and Adjudications

The Corporate Governance Group received the monitoring schedule in respect of complaints by members of the public against Councillors over alleged breaches of the Code of Conduct.

The Corporate Governance Group noted the position as follows:-

Complaint EFDC 2/2012 – Monitoring Officer and Local Assessments Officer attended the relevant Parish Council meeting on 26 April 2012 – Police involvement in some aspects of related events.

Complaint EFDC 3/2012 – New complaint which has resulted in an amendment to the subject member's Registration of Interest form and review of Planning compliance at his residence.

Complaints EFDC 5/2012 and 7/2012 – Assessment Sub-Committee had referred the two complaints for investigation under paragraphs 3.1 and 5 of the Code of Conduct and arrangements were being made for the Investigating Officer to be engaged from Essex County Council.

Complaint EFDC 6/2012 – complaint referred to the Monitoring Officer to discuss with the subject member issues regarding access to premises following a discussion between the Local Assessments Officer and the complainant.

(b) New Standards Arrangements – Update

The Corporate Governance Group was advised that it was likely that the Essex Public Legal Partnership would be finalising various procedures and documentation under the new Standards regime due to be introduced in July 2012 at a meeting to be held on Friday 25 May 2012. It was noted that the Monitoring Officer and Deputy Monitoring Officer had decided that the most suitable way of submitting these proposals to the Council on 18 June 2012 was by means of a Monitoring Officer report.

The Monitoring Officer's report would include reference to the position of Parish and Town Councils in the district, where a joint Standards Committee for those authorities was being promoted by the Epping Forest Association of Local Councils. After discussion at a recent meeting, the Monitoring Officer had been asked by the Association to write to all Parish Councils in the district to establish their wishes in terms of the adoption of a Standards Committee (which was optional) and a Code of Conduct and Complaints Procedure.

The Deputy Monitoring Officer explained that a recruitment exercise would shortly be embarked upon in connection with the appointment of independent persons which are required by statute to assist the Monitoring Officer in the conduct of Code of Conduct and Complaints matters. The Monitoring Officer and Deputy Monitoring Officer had concluded that it was now unlikely that the Council will be in a position to have its own independent persons appointed by the commencement date of early July 2012 and that this difficulty will be covered in the report to the District Council by suggesting that in the interim until the Council had been able to appoint its own independent persons, the Monitoring Officer be delegated authority to utilise the services of independent persons elsewhere in Essex.

131. ANY OTHER BUSINESS

(a) Payment of Allowances

Noted that a member of the Council had queried the need for receipts to be supplied in respect of claims for travel expenses and subsistence. The concern had been

expressed on the basis of the practices of Essex County Council which did not require the submission of receipts in these circumstances.

The Corporate Governance Group noted that as a result of previous Internal Audit reports, the policy had changed in relation to members travel and subsistence claims such that milometer readings for car mileage and receipts for public transport use and subsistence were required in order to validate claims. In exceptional circumstances, where receipts could not be provided and the circumstances were judged to be genuine, members were asked to sign a statement confirming that they had undertaken the duty and incurred the expenditure which was the subject of their claim. The Corporate Governance Group concluded that there should be no change in the validation of travel and subsistence claims and that the member concerned should be advised accordingly.

ACTION:

I Willett/G Lunnun to pursue.

132. DATE FOR FUTURE MEETINGS

20 June 2012 at 9.30 a.m. in the Acting Chief Executive's office.

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-001-2012/13

Date of Meeting: 21 June 2012

Portfolio: Finance & Technology

Subject: Audit Commission National Local Government Studies

Responsible Officer: Steve Tautz (01992 564180)

Democratic Services: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

(1) That the Committee consider the 'National Fraud Initiative 2010/11' report recently published by the Audit Commission, and any actions or implications for the Council arising from recommendations made by the Commission.

Executive Summary

This report provides details of national local government reports and studies recently published by the Audit Commission, that are relevant to the Council's areas of service provision.

Reasons for Proposed Decision

The Audit and Governance Committee receives details of all relevant national local government reports and studies published by the Audit Commission, in order to consider actions or implications for the Council arising from any recommendations made by the Commission. The Commission's executive summary (where produced), or the full report of each study, is provided to members for information.

Other Options for Action

None. Failure to consider recommendations of the Audit Commission and to take corrective action where necessary, could mean that opportunities for improvement were lost and might have negative implications for judgements made about the Council. The reports of the Commission's national local government studies are presented at the request of the Committee.

Report

1. The Audit Commission's national studies programme aims to improve local public services through an independent authoritative analysis of national evidence and local practice. The Commission has a duty to undertake studies designed to make recommendations for improving the economy, efficiency and effectiveness of certain bodies, and to improve the financial and other management of local public bodies. The Commission's national reports address strategic issues affecting specific sectors as well as the public sector as a whole, identifying practice that works, highlighting emerging findings and examining national trends to influence local practice and national policy. Each of national local government reports and studies published by the Audit Commission since 2000 can be downloaded from the Commission's website at:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/pages/list.aspx?ctype=ACNationalStudy>

2. Arrangements for the reporting of local government reports and studies issued by the Commission were agreed by the Committee at its meeting on 24 September 2009. All such reports are considered by the Corporate Governance Group (CGG) in the first instance, and the views of the CGG on each study is reported to the Committee.

3. The following national local government study relating directly to the Council's areas of service provision, has recently been published by the Audit Commission.

'National Fraud Initiative 2010/11' (May 2012)

4. A summary of this study has not been published by the Audit Commission, and a full copy of the report is therefore attached as Appendix 1. The Commission has however published a separate member guide and checklist for the National Fraud Initiative, which is attached as Appendix 2.

5. This Audit Commission's National Fraud Initiative (NFI) has recently been considered by the Corporate Governance Group (CGG). The CGG noted that the NFI has continued to play a key role in the fight against fraud, and that the main areas of fraud identified by the initiative included pensions, Council Tax and Housing Benefit. Whilst the report concluded that most bodies had sound arrangements in place for managing the NFI and for investigating data matches, CGG noted that there was still some scope for improvement and that all audited bodies were recommended to ensure they maximised the benefits of participation in the NFI. In particular, local authorities were advised to take steps to retain the capability to follow up matches not related to Housing Benefit, after the proposed single fraud investigation service is introduced.

6. CGG noted that a change of emphasis was likely to take place in the approach of the Audit Commission to NFI issues, in that it will continue to develop NFI with a flexible range of data matching services to tackle the emerging fraud threats and meet the needs of participants. The Commission is to work with the National Fraud Authority to deploy the NFI to support the implementation of the 'Fighting Fraud Locally' initiative and extend the benefits of NFI more widely. CGG noted that the new approach to NFI would be focused on prevention rather than detection and that this had already been addressed in the work programme for the Internal Audit Unit for the current year, where a vacant post was specifically allocated to look at all areas of NFI activity including Housing, Council Tax and Benefits. Existing internal audit work to achieve data matching is to continue, and the CGG concluded that, so far as the Council is concerned, full compliance is currently being achieved with the requirements of NFI and the Audit Commission, and that there is no reason to suppose that this approach will not continue in the future.

7. The Committee is requested to consider the 'National Fraud Initiative 2010/11' report recently published by the Audit Commission, and any actions or implications for the Council arising from recommendations made by the Commission.

Resource Implications:

None.

Legal and Governance Implications:

There are no legal implications or Human Rights Act issues arising from the recommendations in this report.

Safer, Cleaner and Greener Implications:

There are no implications arising from the recommendations in this report for the Council's commitment to the Nottingham Declaration for climate change, the corporate Safer, Cleaner and Greener initiative, or any Crime and Disorder issues within the district.

Consultation Undertaken:

This report has been agreed by the Corporate Governance Group, and any possible actions or implications arising from the Audit Commission's national reports will be reported to the Committee. Relevant reports of the Audit Commission are also considered by Management Board as necessary.

Background Papers:

Audit Commission report: 'National Fraud Initiative 2010/11' (May 2012)

Impact Assessments:

Risk Management

There are no risk management implications arising from the recommendations contained in this report.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?

No. The content of this report has no specific equality implications. However, the equality implications arising from any proposals for action in respect of areas for local authority improvement recommended by the Audit Commission would need to be considered if these were to be pursued by the Council.

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?

N/A

What equality implications were identified through the Equality Impact Assessment process?

N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?

N/A

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The National Fraud Initiative

National report

May 2012



The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Summary and recommendations

Summary

This report focuses on the outcomes from the National Fraud Initiative (NFI), the Audit Commission's data matching exercise to help prevent and detect fraud, overpayments and errors.



The National Fraud Initiative continues to play a key role in the fight against fraud.

The success of the NFI is founded on well-established partnerships.

- The NFI involves the public audit agencies in other parts of the UK – Audit Scotland, the Auditor General for Wales and the Northern Ireland Audit Office.
- The NFI matches data provided by some 1,300 participating organisations from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies.
- The organisations that participate in the NFI are responsible for following up and investigating the matches, and identifying frauds and overpayments.

£229m
of fraud,
overpayments
and errors
identified by the
NFI in England
since May 2010

The NFI continues to play a key role in the fight against fraud.

- Since our last report in May 2010 the NFI in England has identified almost £229 million of fraud, overpayments and errors.ⁱⁱⁱ This is made up of £139 million for 2010/11 plus £90 million of outcomes not previously reported from earlier exercises.ⁱⁱⁱ
- The NFI also identified £47 million of fraud, overpayments and error in Scotland, Wales and Northern Ireland, bringing total outcomes since the last report to £275 million.
- Since its launch in 1996, the NFI has enabled the participants to detect fraud, overpayments and errors totalling £939 million. This includes £127 million detected in Scotland, Wales and Northern Ireland.

The main categories of fraud identified by the NFI in England continue to relate to pensions, council tax and housing benefit.

- £98 million of pension fraud and overpayments.
- £50 million of fraudulent or wrongly received, council tax single person discount (SPD) payments.
- £31 million of housing benefit fraud and overpayments.

The exercise also produced other significant results.

- 164 employees were dismissed or asked to resign because they had no right to work in the UK.
- 235 properties were recovered for social housing.
- 321 false applications were removed from housing waiting lists following a pilot with London borough councils.^{iv}
- 731 people were prosecuted.
- 31,937 blue badges and 51,548 concessionary travel passes were cancelled.

Most bodies have sound arrangements in place for managing the NFI and for investigating data matches, but there is still scope to do better.

- The NFI matches are not seen by some participants as a valuable source of intelligence and therefore they are not being given appropriate priority.
- Not all participants are making use of the tools within the web application to help them identify high-priority matches linked to local risks.

ⁱ The figures used throughout this report for fraud detections, overpayments and recoveries include both already delivered and estimated outcomes. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without NFI data matching. A more detailed explanation is included in Appendix 1.

ⁱⁱ Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up and under 0.5 rounded down.

ⁱⁱⁱ For national reporting purposes, outcomes are collated at two yearly intervals as at 31 March. Outcomes submitted by participants after this date are included in subsequent reports.

^{iv} We are looking into the potential to roll this out in future to all social landlords.

- The more effectively participants follow up their NFI matches, the more benefits they can realise.
- Some participants are using alternative matching services from commercial providers before they have followed up their NFI matches.

Despite the government’s strong focus on tackling fraud, central government is still not sharing in the benefits of the NFI.

- Although the Audit Commission’s audited bodies are required to participate in the NFI, central government bodies can choose whether or not to do so.
- The Department for Communities and Local Government (DCLG) and the Highways Agency were the only central government bodies that took part in the NFI 2010/11 on this basis.

Only a few housing associations are using the NFI to tackle the problem of tenancy fraud.

- Despite clear evidence that the NFI is a powerful tool for detecting tenancy fraud and the increased focus on housing tenancy fraud over the last two years, fewer than 6 per cent of registered housing associations currently elect to take part in the NFI.

The NFI could secure even better outcomes if it were extended to cover non-fraud purposes.

- There is scope to increase the effectiveness of the NFI by extending it to cover purposes other than the detection and prevention of fraud – for example, the recovery of debt and arrears owing to public bodies, as provided for in Section 32H of the Audit Commission Act 1998.

The Commission will continue to develop the NFI to address emerging fraud risks, with an increasing focus on fraud prevention.

- DCLG has confirmed the government intends to continue the NFI after the Audit Commission’s abolition. The Commission will continue to run the NFI until its data matching powers are transferred to a new organisation.
- The NFI launched a real-time service in September 2011, marking an important shift from fraud detection to fraud prevention.
- The Commission has consulted audited bodies on how the real-time service should be expanded to help them target fraud prevention – for example, to identify the anomalies that may signal fraud before an application is approved.

Recommendations

All audited bodies should ensure they maximise the benefits of their participation in the NFI.ⁱ

In particular, they should:

- use the tools within the web application to help them identify high priority matches linked to local risks;
- use the tips for working smarter in Table 4; and
- follow up the NFI matches before using alternative matching services from other providers.

Local authorities should take steps to retain the capability to follow up matches not related to housing benefit, after the proposed Single Fraud Investigation Service (SFIS) is introduced.

The government should:

- require all central government departments and their arm's length bodies to take part in the NFI; and
- bring forward Orders to extend the Commission's data matching powers to non-fraud purposes.

DCLG and the Homes and Communities Agency should encourage all housing associations to take part in the NFI.

What the Audit Commission will do

The Audit Commission will:

- continue to develop the NFI to include a flexible range of data matching services to tackle emerging fraud threats and meet the needs of participants;
- work with the National Fraud Authority (NFA) to deploy the NFI to support the implementation of the *Fighting Fraud Locally* strategy for local government;
- work with other organisations such as the Cabinet Office and the Department for Work and Pensions (DWP) to extend the benefits of the NFI more widely; and
- work with the new owner of the NFI to ensure a smooth transfer of this function.

ⁱ Councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public bodies in England specified in Schedule 2 of the Audit Commission Act 1998.

Chapter 1: Introduction

This chapter explains what we mean by fraud and the role the Audit Commission plays helping local public bodies to counter it.

1 Fraud is a crime – and not a victimless crime. In the public sector every pound lost through fraud is a pound taken from taxpayers and potentially deprives the users of essential services.

2 The NFA estimates that fraud costs the UK £73 billion each year (Ref. 1). Losses from public sector expenditure fraud are estimated to cost £20.3 billion a year. This amounts to £390 for every adult living in the UK.



Organisations need effective counter-fraud policies that stress the unacceptability of fraud.

3 Organisations need strong anti-fraud cultures and effective counter-fraud policies and procedures that stress the unacceptability of fraud and its serious consequences. They need to check regularly the effectiveness of their arrangements for preventing and detecting fraud.

4 By working together to fight fraud, public bodies can ensure that the time and money saved is available to spend on providing services and benefits to those in society that most need it.

5 The Audit Commission plays an important role in protecting the public purse against fraud. Since 1996, we have run the NFI data matching exercise every two years to help detect and prevent fraud.

6 Each year, our auditors review the fraud prevention and detection arrangements put in place by audited bodies such as councils, NHS trusts, local police bodies, and fire and rescue authorities. Nationally, we publish the results of our annual survey of detected fraud in local government in *Protecting the Public Purse: Local Government Fighting Fraud* (PPP 2011), which also includes guidance on best practice in tackling current fraud threats (Ref. 2).

7 This report is intended for elected members, non-executives and senior officers at our audited bodies. Government departments, other national organisations and the private sector will also find it of interest. Alongside this report we are also publishing a checklist for local authority elected members, as well as case studies of successful outcomes. More information is on our website at www.audit-commission.gov.uk/nfi

Chapter 2: The NFI

This chapter describes the NFI and shows how it helps protect the public purse.

8 The key strength of the NFI is that it brings together a wide range of different organisations, working together in partnership to tackle fraud. Fraudsters often target different organisations at the same time, using the same fraudulent identities. The NFI combats this threat by comparing information held by different organisations to identify potentially fraudulent claims and overpayments.

9 We provide organisations that take part in the NFI with secure access to their matches, which they investigate. For example, when data matching identifies a person as being listed as dead but still in receipt of a pension, the relevant body will investigate and, if appropriate, stop pension payments.

10 Payroll matches can identify employees who have no right to work in the UK. They may also identify employees who may be committing benefit fraud against other participants. Table 1 shows more examples of the data matches that we undertake and why.

11 A match does not automatically mean fraud. Often, there is a straightforward explanation for a data match that prompts bodies to update their records and to improve their systems.

12 Data matching showing little or no fraud and error assures bodies about the effectiveness of their control arrangements. It also strengthens the evidence for the body's Annual Governance Statement.

The key strength of the NFI is bringing together a wide range of organisations, in partnership to tackle fraud

Table 1: **Examples of the data matches the NFI have undertaken**

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Payroll records to records of failed asylum seekers and records of expired visas.	Obtaining employment while not entitled to work in the UK.
Blue badges records to records of deceased people.	A blue badge being used by someone who is not the badge holder.
Housing benefit payments to records of housing tenancy.	Claiming housing benefit despite having a housing tenancy elsewhere.
Council tax records to electoral register.	A council taxpayer gets SPD because the person is living with other countable adults, which means the council taxpayer does not qualify for a discount.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

Source: *Audit Commission*

13 The NFI works within a strong legal framework, including the Data Protection Act 1998, which protects individuals' personal data.

14 Data matching exercises are carried out under statutory powers in Part IIA of the Audit Commission Act 1998 (Ref. 3), which contains important safeguards on the use and disclosure of data, including the requirement for a statutory *Code of Data Matching Practice* (Ref. 4).ⁱ

15 The Code helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards that the Commission has always considered essential to the effectiveness of the NFI. It also promotes good practice.

16 The NFI's data matching systems and processes comply with all relevant government information security standards.

The NFI works within a strong legal framework, which protects individuals' personal data

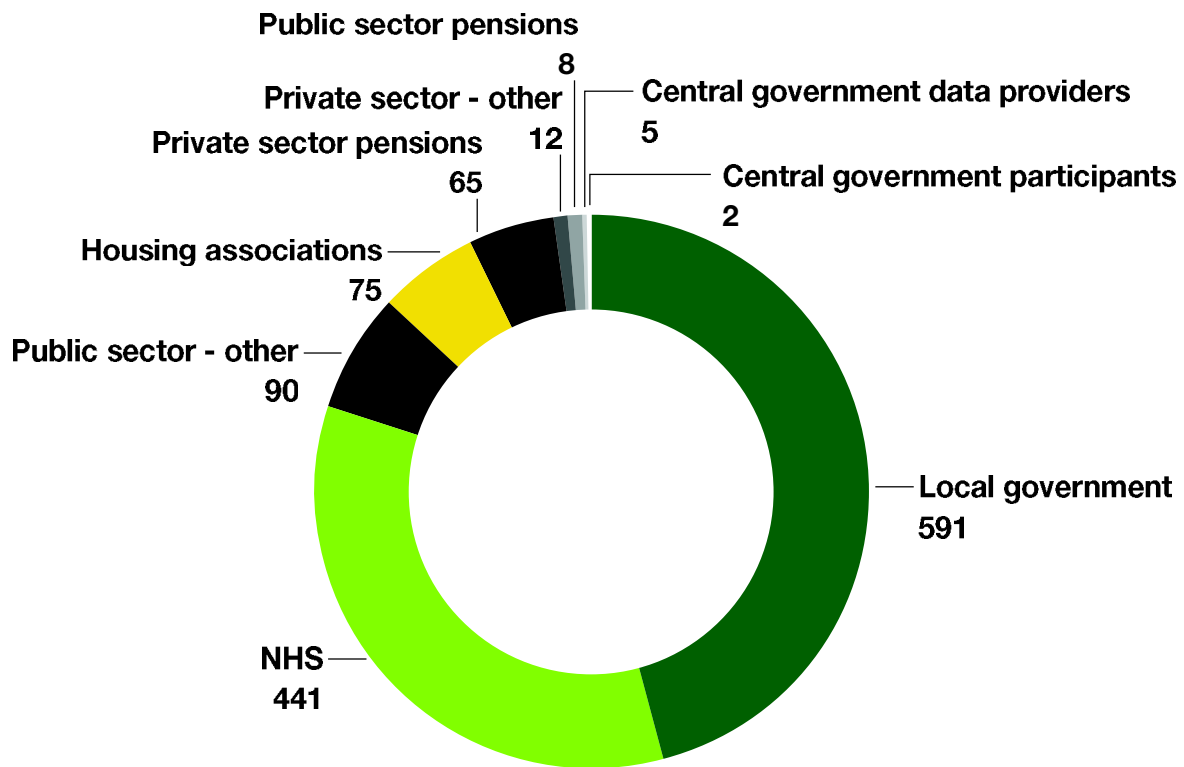
ⁱ The first such Code was laid before Parliament in July 2008, after extensive consultation, including with the Information Commissioner. The Code is available at www.audit-commission.gov.uk/datamatchingcode

17 The latest NFI exercise started in October 2010 and processed nearly 8,000 data sets from some 1,300 organisations, including 77 from the private sector (Figure 1). For the first time, all the firms providing audit services to the Commission included their employee data in the NFI exercise.

The latest NFI data matching exercise processed nearly 8,000 data sets from some 1,300 organisations

18 The participation of the private sector not only helps to detect illegal activity in the wider economy, but the data provided also helps to identify additional fraud against public bodies. For example, by matching private sector payroll records to housing benefit records, we may identify cases where benefit is being claimed fraudulently, because the claimant is working and not declaring their income. This wider information matching also helps detect fraudsters working across different sectors, sometimes using the same fraudulent identities.

Figure 1: **Types of organisation taking part in the NFI**



Source: *Audit Commission*

19 The NFI 2010/11 produced 4.6 million data matches – an average of 3,586 for each organisation. We rated 18 per cent of matches in need of urgent action, because they showed a high risk of fraud. Matches were investigated during 2011 and early 2012.

20 The success of the NFI depends on organisations investigating the matches. To help organisations with their investigations, we provide:

- a secure application that is easy to use and provides a full case management system for investigators;
- online training on the functionality available to assist investigators;
- prioritised reports highlighting the data matches that show a high chance of fraud;
- guidance, briefings and help desk support; and
- good practice examples of successful follow-up approaches – for example, a step-by-step guide to investigating council tax SPD matches, including proforma letters to send to those appearing in a match.

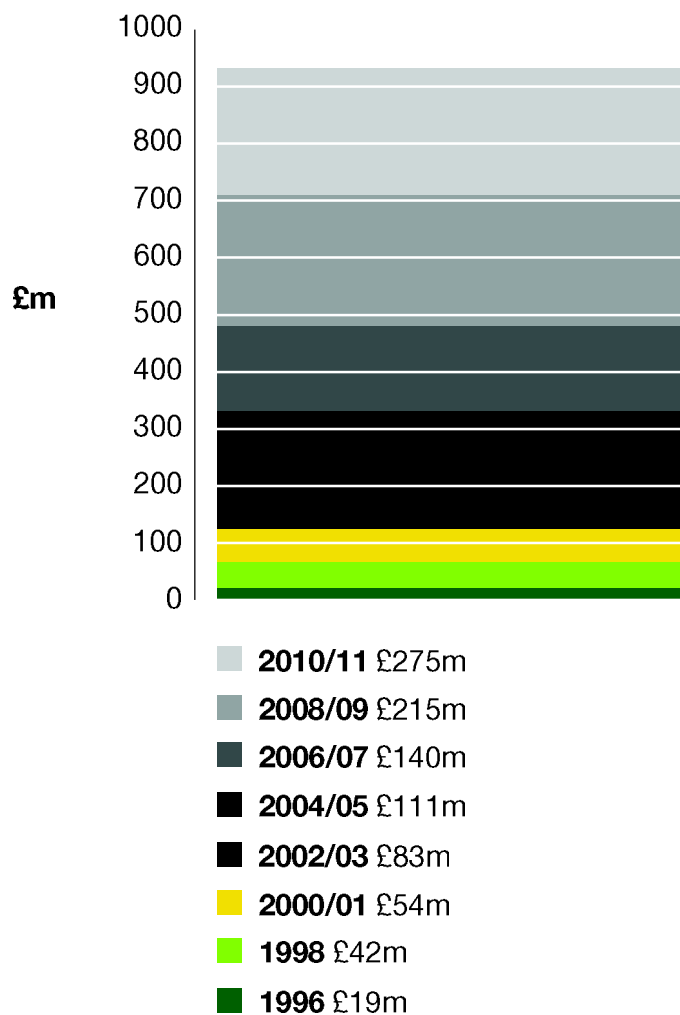
21 The NFI delivers good value for money for each participant, using economies of scale to secure maximum benefits at least cost. The total direct cost of running the 2010/11 exercise was £2.6 million, which we recover by charging fees to those who take part. For example, a London borough pays £4,150 and a mid-sized district council pays £2,200. The financial benefits resulting from the NFI are 106 times greater than the direct cost.

The financial benefits resulting from the NFI are 106 times greater than the direct cost

Chapter 3: The NFI across the UK

22 The Commission runs the NFI in partnership with the public audit agencies in other parts of the UK – Audit Scotland, the Auditor General for Wales and the Northern Ireland Audit Office. The NFI also involves other national bodies and government departments. The involvement of the public audit agencies and other national bodies is a key factor in the success of the NFI and serves the public interest in the fight against fraud.

Figure 2: **Outcomes identified by the NFI across the UK as reported to the Audit Commission by participants**



Source: Audit Commission

23 Each agency carries out data matching under its own powers, but uses the Audit Commission’s existing systems, processes, and expertise. This delivers economies of scale, reduces the cost for organisations taking part and allows cross-border matching.

24 The total fraud, overpayments and errors detected across the UK since the NFI began amounts to £939 million (Figure 2).

25 In Scotland, investigation of data matches found fraud and overpayments of £20 million. In Wales, detected frauds and overpayments amounted to £6 million. In Northern Ireland frauds and overpayments totalled nearly £21 million. The figure for Northern Ireland includes £12 million outcomes not previously reported from work on the NFI 2008/09 unpaid domestic rates matches.ⁱ Aggregate outcomes for bodies in Scotland, Wales and Northern Ireland since they first started to run the NFI are £127 million (Figure 3).

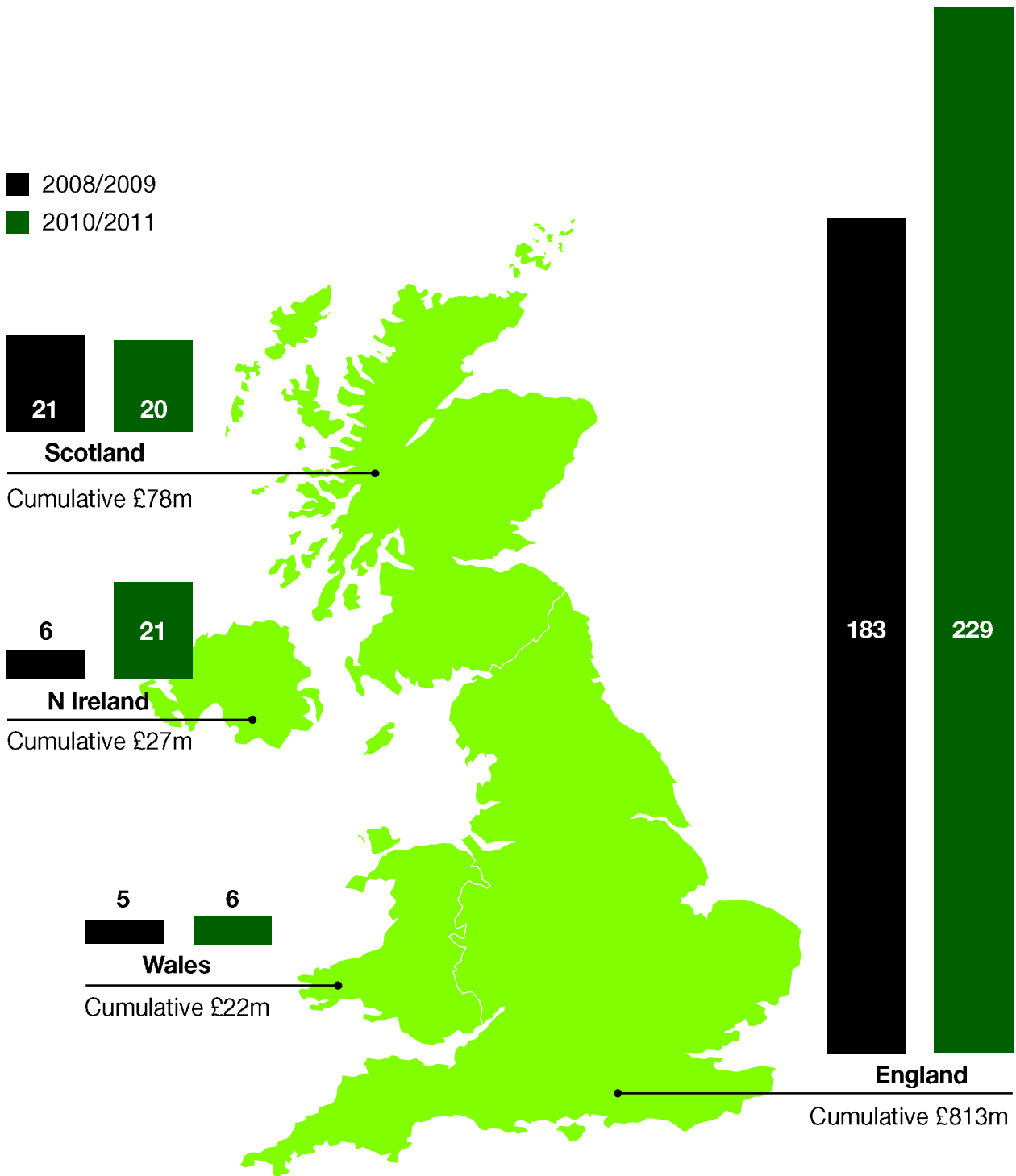
26 Each national audit agency reports on the NFI separately for their geographical areas.ⁱⁱ The rest of this report focuses on the outcomes for the NFI in England.

£939m
of fraud,
overpayments
and errors
detected in the
UK since the
start of the NFI

ⁱ Domestic rates are a property tax based on the valuation of a home. It is used to fund both local and regional services in Northern Ireland.

ⁱⁱ The NFI results in Scotland will be available at www.audit-scotland.gov.uk in Wales, at www.wao.gov.uk and in Northern Ireland, at www.niauditoffice.gov.uk

Figure 3: Cumulative total over period of NFI (1996-2012) £939 million



Source: Audit Commission

Chapter 4: Results of the NFI in England

This chapter sets out the results of the NFI in England since we reported in May 2010. It highlights the successes in tackling key risks (Table 2) and shows why organisations should take part in the NFI.

27 Since we last reported in May 2010, the NFI has identified fraud, overpayments and errors in England totalling almost £229 million. This represents a 25 per cent increase on the total for the previous reporting period (£183 million).ⁱ

28 The total comprises outcomes already delivered of £91 million and estimated outcomes of £138 million (Appendix 1). These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

25%
**more fraud,
overpayments
and errors
were identified
by the NFI
since the May
2010 report**

ⁱ For national reporting purposes outcomes are collated at two yearly intervals as at 31 March. Outcomes submitted by participants after this date are included in subsequent reports.

Table 2: **A comparison of cumulative outcomes by risk area**

Activity area	2008/09 £million	2010/11 £million	Percentage increase/ decrease
Pensioners – public sector	65	91	+40
Council tax SPD	56	50	-11
Housing benefit ⁱ	24	31	+29
Housing (including right to buy and recovered properties)	7	18	+157
Blue badges	8	16	+100
Payroll (including salary payments to illegal workers)	6	8	+33
Pensioners – private sector	13	7	-47
Trade creditors duplicate payments	3	5	+67
Private residential care homes	1	3	+200
Total	183	229	+25

Source: Audit Commission

29 Table 3 summarises the key results in England. As well as significant financial success, other results included:

- 235 properties were recovered for social housing;
- 246 members of staff were dismissed or resigned;
- 731 prosecutions; 564 administrative penalties; and 689 official cautions; and
- 31,937 blue badges and 51,548 concessionary travel passes were cancelled.

30 The rest of this chapter reports the results from some of the specific areas of the NFI data matching.

ⁱ The 2008/09 figures include an estimate for the value of sanctions applied. This estimate is not included in the 2010/11 figure.

Table 3: **Key results in England**

England only		
Housing benefit fraud, error, overpayments	2008/09	2010/11
Local Government employees	938	1,513
Students	1,183	1,400
NHS employees	315	611
Immigration	49	36
Local Government pensioners	1,721	1,467
Housing benefit sanctions		
Successful prosecutions	269	636
Official cautions	441	689
Administrative penalties	308	564
Housing		
Properties recovered	97	235
Right to Buy wrongly awarded	16	7
Council Tax SPD incorrectly awarded	53,926	39,015
Mortality screening		
Pensioners	2,163	2,910
Residents in private care homes	52	389
Blue badges cancelled	16,535	31,937
Concessionary travel passes cancelled	21,534	51,548
Other		
Duplicate creditor payments	638	1,815
Total employees dismissed or resigned	256	246

Source: *Audit Commission*

Findings

Immigration fraud

31 The NFI matches data from the UK Border Agency (UKBA) about refused and expired visas; visas where there is no right to work; and failed asylum seeker applications, against data on housing benefit claims, payroll records and housing tenancy.

32 Employers have a statutory duty to satisfy themselves that a potential employee is entitled to work in the UK. Employers are liable for a penalty of up to £10,000 if they employ an illegal worker (Ref. 5).

33 We worked closely with UKBA to identify ways we could improve NFI 2010/11. In particular, we automated the way a body taking part in the NFI gets an immigration update, fully integrating it into the web application. This means organisations can access the most up to date information before action is taken.

34 Matching UKBA data led to:

- the dismissal or resignation of 164 employees from 74 organisations, including local authorities, NHS hospitals, primary care trusts and housing associations;
- councils identifying 36 housing benefit overpayments amounting to £0.37 million;
- the recovery of one property for use as social housing;
- one tenant awaiting deportation; and
- employers identifying £3 million of salary payments to illegal workers.

Matching UKBA data led to the dismissal or resignation of 164 employees from 74 organisations

35 Case study 1 provides an example of immigration fraud discovered because of NFI matches.

Case study 1

Moorfields Eye Hospital NHS Foundation Trust

A match between the trust's payroll records and UK visa data highlighted a hospital porter who had worked for the trust for six years, despite having had no right to work or stay in the UK since 2004.

The investigation revealed that the passport presented for pre-employment checks had included a forged stamp indicating he had indefinite leave to remain in the country. The porter was arrested at work in January 2011 and immediately suspended. He was dismissed the following month.

He pleaded guilty at court and was given a 15-month prison sentence. He will be deported after serving his sentence.

Source: Audit Commission

Housing benefits

36 The NFI matches housing benefit records against data sources that councils do not readily have access to, including NHS payroll, central government pensions, student loans and housing tenancy.



Matches may identify where a person is claiming a benefit that they are not entitled to.

37 Matches may identify where a person is claiming a benefit that they are not entitled to. For example, matches can identify employed people who are claiming they have no income. Case study 2 provides an example of a fraud case identified.

Case study 2

London Borough of Ealing

As a result of the investigation of a match between housing benefit and student loans records, a student was found to have committed housing benefit fraud for the second time. His failure to declare income from his student loan meant he was overpaid nearly £6,000 of housing benefit.

He was successfully prosecuted and given a six-month suspended prison sentence and ordered to carry out 200 hours of unpaid community work.

Source: Audit Commission

38 In July 2011, DWP reported that, in 2010/11, councils across England, Scotland and Wales paid out over £26.6 billion of housing and council tax benefit. The equivalent fraud losses are about £350 million each year (Ref. 6). Housing benefit and council tax benefit frauds were detected by councils more frequently than any other types of fraud.

39 Housing benefit continues to account for a significant proportion of the total fraud identified through the NFI.

40 Since our report in 2010, the NFI has helped to uncover additional benefit frauds and overpayments worth £31 million. Councils are taking action to recover about 69 per cent of the overpayments, including:

- £9 million where pensioners from the civil service, armed forces, teaching and the NHS claimed benefits without fully declaring their pension income; and
- almost 6,200 housing benefit cases, of which 25 per cent were proven fraud cases.ⁱ

41 Action taken against benefit fraudsters included 636 prosecutions, 564 administrative penalties and 689 cautions.

Housing benefit continues to account for a significant proportion of the total fraud identified through the NFI

ⁱ The other 75 per cent were classified as either suspected fraud, claimant or administrative error.

Pensions

42 The NFI matches pension information to data about deceased people, which is provided by DWP and the Disclosure of Death Registration Information from the General Registrar's Office. This is known as 'mortality screening'.

43 Frauds and overpayments of pension often occur when pensioners die, but relatives fail to tell the authorities of the death and continue to receive the payments.

44 Although we run mortality screening as part of every NFI, we continue to identify consistently high levels of fraud cases, indicating that new pension frauds are starting regularly.

45 Since our report in 2010, the NFI has identified an extra 2,910 cases where pensioners had died, but payments were continuing. Of these, 282 cases were identified by private sector pension schemes. Actual and estimated overpayments, totalling £98 million, were detected and prevented (Appendix 1).

46 The NFI also enables pension schemes to identify pensioners who have returned to work and may have wrongfully avoided pension decreases by not telling the pension scheme administrators. There were 116 such cases, involving overpayments of £0.73 million.

47 Pension data also enables councils to identify housing benefit fraud where a pension is not declared on a benefits claim. Case study 3 provides an example of a fraud case identified in this way.

£98m
of actual and
estimated
overpayments
of pensions
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identified
since 2010

Case study 3

Tamworth Borough Council

A match between housing benefit and pensions records led to a joint investigation by Tamworth Borough Council and DWP into a housing benefit claimant who had failed to declare his NHS pension, to either the council or DWP, since 2002. The resulting overpayments totalled £54,000.

He was successfully prosecuted and sentenced to six months' imprisonment, suspended for nine months, and ordered to repay the £54,000.

Source: Audit Commission

Injury pensions

48 Retired police officers and firefighters can receive incapacity benefit or industrial injury and disablement benefit when they are injured at work. They may also be entitled to an enhanced occupational pension because of work-related injuries. Reductions in payment may be required when incapacity benefit, industrial injury, disablement benefit and enhanced occupational pension are received for the same injury.

49 In our May 2010 report, we set out details of a new data match designed to target the emerging risk that such pensioners were not declaring relevant state benefits and, as a result, injury pensions were being overpaid. Because of the success of the pilot match, it was included as a core mandatory data set for the NFI 2010/11 exercise.

50 Since we reported in 2010, 312 cases have been identified with overpayments totalling £4.48 million.

51 These outcomes could have been higher but many police and fire authorities had difficulties securing information from DWP that is needed to investigate these matches. We will work with DWP to agree a protocol on exchange of information, to help all bodies taking part in the NFI to identify more overpayments in this area.

Blue badges

52 Councils are responsible for awarding blue badges, which provide a range of parking concessions for people with severe mobility problems who have difficulty using public transport. About 1.7 million blue badges are used in England (Ref. 7). In London, this concession extends to the congestion charge.

53 Fraudsters are exploiting the scheme by forging badges and stealing badges from cars. Abuse also occurs when badges remain in use, or are renewed by people after the death of badge holders. In *PPP 2011* (Ref. 2) we reported that there is a black market for badges, which can change hands for as much as £500.

54 The NFI matches blue badge information to data about deceased people. Data matches have enabled councils to cancel a further 31,937 badges since we last reported. Case study 4 provides an example of a fraud case identified.

55 On 1 January 2012, the new Blue Badge Improvement Scheme procured by the Department of Transport as part of the Blue Badge Reform Programme was made available to local authorities (Ref. 8). The scheme, which is being phased in over the next three years, is designed to help to prevent fraud and enable more effective monitoring of cancelled, lost or stolen badges.

56 We support these new arrangements and will continue to undertake the deceased data matching to assist in identifying potential abuse of the badge scheme.

Case study 4

City of London Corporation

The investigation of a match between blue badge and deceased people records identified an individual who had fraudulently obtained disabled parking permits from the Corporation. He had completed renewal application forms under his mother's name, even though she had died almost a year before.

He admitted two charges of fraud by false representation. He was given a two year conditional discharge, and ordered to contribute £300 towards prosecution costs.

Source: Audit Commission

Payments to private residential care homes

57 The NFI matches information about private residential care home payments to data about the deceased, to identify where payments may be continuing for people who have died.ⁱ

58 In general, councils have good systems in place and are already aware of the deaths when they receive the NFI matches. But a significant number are not, and this highlights the value of the match.

59 Councils identified 389 cases where payments had continued to private residential care homes after a resident's death. Overpayments amounted to £3 million and in 95 per cent of cases the overpayment has been, or is being, recovered.

Social housing

60 Pressure on social housing is increasing and tenancy fraud has become a major problem. In its *Laying the Foundations Strategy* DCLG stated that there were 4.5 million individuals, or 1.8 million households, waiting for social housing (Ref. 9). *PPP 2011* (Ref. 2) estimated that registered social housing providers may have lost control of the allocation of at least 50,000 social housing properties in England, because of housing tenancy fraud.

ⁱ Where councils agree that a resident needs to move into a residential care home, they may pay part or all of the care home's fees.

61 Tenancy fraud should therefore be a key priority for councils and housing associations. The NFI helps fight this fraud by undertaking data matching to identify false housing applications and properties that are sublet unlawfully.

62 Since our report in 2010, social landlords were able to recover 235 properties from those in unlawful occupation, and reallocate the properties to genuine tenants. This brings a significant financial benefit because it avoids placing prospective tenants in expensive temporary accommodation.

63 This outcome is in part the result of an extra data matching exercise run in December 2009, supported by DCLG, specifically to address the problem of unlawful subletting. DCLG provided funding for all housing associations with over 1,000 properties to take part in this exercise.

64 Although the outcomes were positive, it was disappointing that only 92 of the 400 housing associations invited chose to take part.

65 Case study 5 provides an example of housing tenancy frauds identified through NFI data matching.

Case study 5

Affinity Sutton Housing Association

As part of a new strategic approach to targeting tenancy fraud, national affordable housing provider Affinity Sutton introduced a new neighbourhood auditor team in 2010. As a result of work undertaken by this team on the NFI matches they recovered a total of 12 properties. These homes, which are spread across the country, have been reallocated to families in genuine housing need.

In one case, the investigation of a match between tenancy and housing benefit records led to the recovery of a two-bedroom house in only two weeks. When a visit to the property by the auditor team confirmed that someone other than the tenant was in occupation, the neighbourhood auditor team contacted the tenant at the housing benefit address and recovered the keys.

Source: Audit Commission

Right to Buy

66 The NFI matches tenancy records against applications from tenants to buy their council property, at a discount, as part of the Right to Buy scheme. Matches may identify cases of false information on the application.

67 Seven cases were identified where Right to Buy applications had been wrongly awarded. In addition, councils stopped ten applications that were in progress. Outcomes were, in part, affected by the poor quality of the data provided by some organisations that led to some false matches being generated. These false matches made it more difficult to identify the genuine data matches that did highlight potential fraud.

68 In response to the consultation on the *Laying the Foundations Strategy* (Ref. 10) the Right to Buy discount cap in England was increased to £75,000 with effect from 2 April 2012. These changes are likely to make the Right to Buy scheme more attractive to fraudsters. It will be even more important that all social landlords invest resources in following up the Right to Buy matches provided by the NFI to identify potential abuse of the scheme.

69 We will work with councils and other social landlords to ensure that they maximise the benefits of following up these matches. We will provide more training on the purpose of the matches and we will advise those organisations that provided lower quality data for the NFI 2010/11 how the data can be improved for future exercises.

Payroll

70 There is always a risk that staff will commit fraud. However, in *PPP 2011* (Ref. 2), we reported that the number of frauds perpetrated by councils' own staff is low. In 2010/11 across the UK, there were 1,581 cases (1.3 per cent of total cases). The total value of these frauds was £19.5 million, which represents 10 per cent of the total value of frauds detected by councils.

71 The NFI matches payroll data provided by participants to help identify employee fraud. Matches may show that someone is working for one employer while on long-term sick leave from another.

72 Investigations following data matches have enabled employers to dismiss or seek resignation from 82 employees. Employers have recovered, or are recovering, over £0.34 million of overpayments. Six of the cases were so serious that they led to criminal prosecutions.

73 Our payroll to creditor payments matching was strengthened in 2010/11 to include bank account and address matches. Outcomes now total £123,000. Case study 6 gives an example of a typical outcome.

Case study 6

Payroll to creditor payments (employee fraud)

Matching an organisation's payroll records to its creditor payments records can identify employees with interests in companies trading with their employer. The investigation of such a match at an organisation in the North East of England revealed that a former senior accountant had set up a fictitious company and authorised two payments totalling more than £45,000 to the company over a period of six months.

The former employee has admitted to committing a number of offences and a prosecution case is being prepared.

Source: Audit Commission

Creditor payments

74 The NFI checks creditors' data to identify duplicate payments and wrongly calculated VAT. Apart from the financial benefits, these data matches also help to identify system improvements and weak internal controls.

75 Following a suggestion from the London Borough of Bromley we introduced additional matching rules for the 2010/11 exercise. The new match rules helped to identify duplicate payments where the creditor reference number was different. As a result the number of matches increased by 10 per cent and identified overpayments increased by 56 per cent.

76 Better quality matches helped identify overpayments of £4.7 million compared with £2.8 million in 2008/09. Seventy-eight per cent of the overpayments have been, or are being, recovered.

Council tax SPD

77 A third of households receive SPD and nationally this costs about £2 billion a year (Ref. 11). The NFI matches council tax records to the electoral register to identify individuals receiving the 25 per cent discount on the basis that they live alone, despite the electoral register suggesting that they live with other countable adults.ⁱ

ⁱ In certain circumstances, the discount may apply where another adult who meets specified conditions lives in a property. For example, where another adult living at a property is either severely mentally impaired, a student, an apprentice, a student nurse or a youth training trainee, they can be disregarded when counting the number of adults in the household and the SPD may still apply. Discounts awarded on this basis are excluded from the NFI matching.

78 Since our report in 2010, local authorities have identified an additional £50 million SPD awarded incorrectly. Most of these outcomes have been generated from the matches released in March 2010. Recovery action is being taken in 69 per cent of cases. The cumulative total since we started doing this match is £114 million and councils have stopped discounts in over 99,000 cases.

79 Access to matches from the NFI 2012 SPD exercise was given to councils on 20 February 2012. Outcomes from these matches will be included in our next report.

Pilot matching

Housing waiting lists

80 A pilot exercise on housing waiting lists at London borough councils was undertaken as part of the NFI 2008/09 exercise. The NFI matched housing waiting list data to identify people who were not entitled to social housing. This could have been, for example, because they had another social housing tenancy or they were not eligible for council housing because of their immigration status.

81 Since we reported in 2010, an extra 321 applicants have been removed from housing waiting lists. Following this success we plan to undertake an extended pilot in NFI 2012/13. This pilot will include a greater number, and a wider geographic range, of participants.

Operation Amberhill

82 The Metropolitan Police created the Amberhill database to record data seized in operations against organised groups that were mass producing false identity data. The false identity can be made up or stolen from real people. So far tens of thousands of items of false identity data have been seized.

83 With fraudsters operating across government departments and the public and private sectors, sharing intelligence on known frauds and fraudsters is critical to the fight against fraud.

84 In September 2011, we used the Amberhill database in a pilot that generated matches for over 200 participants. We issued clear guidance to ensure that participants recognised that the NFI match may link to the genuine individual whose identity had been stolen.

85 Following up these matches has identified a wide range of frauds against organisations taking part in the NFI where false documentation had been presented. These include :

- an employee in a position of trust who had worked for over five years with a false identity;
- an individual who fraudulently claimed housing benefit and council tax benefit in excess of £30,000 over a two-year period;
- an individual who had used multiple identities to claim housing benefit at multiple councils;
- tenancies that had been awarded on the basis of fraudulent applications, with investigations also revealing corruption in a housing tenancy team;
- the arrest and prosecution of a licensed Hackney Carriage taxi driver who used a counterfeit driver's licence; and
- an individual who had used a false identity to secure a concessionary travel pass and claim housing benefit.

86 In addition the pilot identified a number of individuals who were unaware that they had been the victim of identity theft. These included an elderly care home resident, a doctor and a local councillor.

87 Because of this success we plan to integrate this match, after taking into account the learning from the pilot, into future NFI exercises on a mandatory basis.

Serious Organised Crime Agency virtual office address

88 A virtual office address is a business, correspondence or administrative address provided as a business service to clients. Virtual offices are generally used to reduce traditional office costs while maintaining business professionalism, but may also be used by an individual to hide their genuine address.

89 In October 2011, we cross-matched the Serious Organised Crime Agency virtual office address data to NFI data sets where the individual would be expected to use a residential address – for example, housing benefit claims. Investigations are still ongoing, but the pilot has already identified:

- a sheltered housing address being used by an absconder from justice to forward correspondence to an address in Thailand; and
- individuals holding concessionary travel passes issued by authorities other than those in whose area they live – to gain travel benefits they're not entitled to.



Modern virtual offices are used to reduce the traditional costs of running a business, but they can also be used for criminal activity.

90 Following completion of the pilot we will undertake a full evaluation to determine whether, and if applicable how, to integrate this match into future NFI exercises.

Blue badges

91 Under the Department for Transport's blue badge scheme, only one blue badge should be issued per person, for personal use. However, councils contacted us expressing their concerns that people had obtained a blue badge from more than one council.

92 We therefore undertook a pilot data match. This included nearly 146 authorities in England and identified people with multiple badges. It has resulted in the cancellation of 76 badges. We are investigating the potential to integrate this match into future NFI exercises on a mandatory basis.

Chapter 5: How can organisations make better use of the NFI?

This chapter looks at how organisations can make better use of the NFI. It considers how the NFI is used at an operational level.

93 The total of £229 million fraud, overpayments and error is a good outcome but there are still a few areas where results could be even better. The NFI's full potential is only realised if the organisations that take part supply all the required data on time and undertake appropriate follow-up investigations of the matches promptly and thoroughly. For each exercise we consider how effectively organisations use the NFI.

Investigating matches promptly and thoroughly is essential to the success of the NFI

94 In this chapter, we:

- comment on the challenges currently facing the organisations taking part in the NFI;
- report how well public bodies perform operationally in supplying data for matching and investigating data matches; and
- look at specific areas where improvements could be made.

Current environment

95 The Audit Commission and Local Government Association report *Work in Progress: Meeting Local Needs with Lower Workforce Costs* (Ref. 12) sets the scene for some of the issues our participants are facing in terms of reductions in workforce budgets and *Tough Times: Councils' Responses to a Challenging Financial Climate* (Ref. 13) looks at the impact cuts in central government funding and reductions in other income are having on service spending.

96 In these circumstances it is important to recognise that organisations can make significant savings by reducing fraud. This can help protect both frontline jobs and services.

97 However, in the course of its regular visits to participating bodies, our NFI team has already noticed that counter fraud and benefit fraud investigation budgets and staffing numbers are being reduced. A number of the NFI key contacts at audited bodies have raised concerns that these reductions will, and in some cases have already, started to impact on the effectiveness of the follow-up arrangements for the NFI matches.

Welfare Reform Act

98 The government is proposing major welfare reforms as part of the *Welfare Reform Bill*.ⁱ The Bill is passing through Parliament at the time of writing. These changes include the transition to *Universal Credit* and the introduction of a *Single Fraud Investigation Service (SFIS)*. The changes will have a significant impact on councils' benefit services.

99 Universal Credit is likely to replace many existing means-tested benefits and tax credits for people of working age including housing benefit. The NFI will continue to match housing benefit data until Universal Credit replaces it fully. We want to match Universal Credit to all NFI data sets in future and will work with DWP to secure this.

100 The SFIS is planned to start in 2013. Local authority investigators will still be employed by their local authority, but they will work to SFIS policies and procedures. This interim arrangement will be reviewed in 2015 once longer-term decisions have been made about how Universal Credit will be managed. The Commission is committed to working with DWP to ensure SFIS gives appropriate priority to investigating existing and future NFI housing benefit matches.

101 Some councils also use housing benefit investigators to investigate other frauds. There is a risk that the introduction of SFIS may impact on the ability of these staff to investigate non-housing benefit fraud. It is important that this risk is addressed and that councils take steps to retain sufficient capability to investigate the NFI matches not related to housing benefit.

Operational issues

102 We asked the external auditors of mandatory NFI participants to assess the arrangements in place for taking part in the NFI and for following up data matches.

103 Auditors were satisfied that most bodies have sound arrangements in place for managing the NFI and for investigating data matches. However, they identified significant weaknesses at a few bodies. These included failing to:

- open all or many of the NFI reports;
- investigate data matches flagged as high risk;
- supply the required data sets for matching;
- follow up issues promptly; and
- meet deadlines.

104 Our NFI team followed up the auditors' assessments and gave support to organisations where that was necessary. Many of these bodies have now taken action to address these weaknesses.

ⁱ Subject to successful passage of the Welfare Reform Bill 2011 through Parliament.

105 Against this background, it is disappointing that Mendip District Council failed to provide data sets relating to residents' parking permits and market traders'.

106 Over the course of the NFI 2010/11 our NFI team monitored participants' progress and carried out a programme of visits to individual bodies. There were three key messages from these visits.

- Participants are not making use of the tools within the web application to help them identify high priority matches linked to local risks. This is an important step particularly if the number of staff working on investigations is limited.
- The NFI matches are not seen by some participants as a valuable source of intelligence and they are not given appropriate priority.
- Some councils are not maximising the benefit of the NFI before procuring similar data matching services from private sector providers.

Specific opportunities to improve

107 Some local public bodies are complying with the basic requirements of the NFI but could, and should, do more.

108 Many organisations have found ways to maximise the benefits of the NFI matches and work more efficiently (Table 4). This enables them to focus their limited resources effectively.

Table 4: **Maximising the benefits of the NFI**

Ways to maximise the benefits and work more efficiently

Ensure all users of the NFI web application watch the online training modules and read the guidance notes so they are aware of the latest time-saving enhancements. The NFI software is continuously being developed and many participants are missing these changes.

Schedule staff resources so time-critical matches such as students can be dealt with as soon as they are received.

Coordinate investigations across departments – SPD matches involving housing benefit, for example – to avoid duplication of effort and ensure all overpayments are identified.

Use the tools within the web application, such as the filter and sort options, to identify the matches that are the highest risk. Do not review every match in every report.

Employ data analysis software such as IDEA® to prioritise matches and use mail merge techniques to aid investigations.

Enter a report comment and report high-level outcomes where available, rather than entering this information against every match. This will save time and free up staff for the investigations.

Respond promptly to enquires from other organisations that take part in the NFI so investigations can be progressed quickly.

Use NFI outcomes and successful prosecutions as a deterrent measure by publicising them locally.

Look at the quality of the data supplied for the NFI before the next exercise. Better data quality will improve the quality of resulting matches.

Source: Audit Commission

Chapter 6: Looking to the future

This chapter looks at our plans to develop and enhance the NFI over the next two years, and the challenges that lie ahead.

109 Following the announcement, in August 2010, of its intention to abolish the Audit Commission, the government has confirmed it intends to continue the NFI. This was reaffirmed in January 2012, in the *Government Response to the Future of Local Audit Consultation (Ref. 14)*.

The government has confirmed it intends to continue the NFI

110 The Commission will work closely with DCLG and other stakeholders to secure the most appropriate home for the NFI. While the Commission retains oversight of the NFI, we will continue to run and develop it, to meet the needs of participants. Once the new organisation responsible for delivering the NFI is identified, we will work with them to ensure a smooth transfer.

111 The NFI aims to serve the public interest by:

- safeguarding public money against losses from fraud or misappropriation; and
- contributing effectively to the fight against fraud.

112 NFI 2012/13, which we will launch in June 2012, will meet these aims by:

- continuing with successful batch data matches and developing the service to offer more flexibility and meet new risks;
- putting more emphasis on fraud prevention through the development of real-time data matching services; and
- extending data matching for fraud purposes to a broader range of organisations and sectors.

113 At the same time, we will continue to seek to extend the remit of the NFI to allow data matching for purposes other than the detection and prevention of fraud for example, to help participants trace individuals who have outstanding debts or arrears.

Developing batch data matching to offer more flexibility and meet new risks

114 We will continue to run data matches every two years but, in addition, we will offer more frequent flexible data matching.

115 In 2011, we ran our pension mortality screening matching again on a voluntary basis. Pension funds welcomed this extra service. We will build on this by offering a service that gives a pension scheme the flexibility to determine when, and how often, this is undertaken.

116 We are also expanding this flexible approach to other areas of the NFI. In response to feedback from participants, the NFI will now allow participants, either individually or as part of a group, to elect to submit batch data for matching at any time. The data submitted, and the frequency of the matching, will be determined by the participants.

117 These flexible services could be used by councils to deliver many of the recommendations made by the NFA in its *Fighting Fraud Locally: the Local Government Fraud Strategy* (Ref. 15). We will be working closely with the NFA and other key stakeholders to deploy the NFI to support the implementation of the strategy across local government.

118 Alongside these new services, we continue to develop the NFI to meet new fraud risks. We will listen to the concerns raised by organisations about emerging challenges facing them. For example, in their responses to the Audit Commission's annual survey of detected fraud in local government, councils have reported significant new fraud risks from the move to personal budgets in social services (Ref. 2). In response, we are looking to develop a pilot data match in this area as part of the NFI 2012/13.

Alongside these new services, we continue to develop the NFI to meet new fraud risks

Increased emphasis on fraud prevention

119 In September 2011, the Commission launched the first NFI real-time data matching service. The launch of this service marks an important shift from fraud detection to fraud prevention. By matching data at the point of application, the NFI can help participants both in the private and public sector to prevent fraudulent applications from being successful.

120 Following consultationⁱ, we are expanding the NFI real-time data matching to cover audited bodies, private sector and other public sector participants.

ⁱ The consultation and summary of responses can be accessed on the Commission's [NFI consultation webpage](#)

121 There will be a menu of data matching options, each of which is recognised by the Commission as assisting in preventing and detecting fraud, and each participant will decide which options it wishes to use to target the actual fraud risks it faces. Mandatory participants will be given delegated authority to determine which data is submitted for matching. They will simply be required to record the basis of their decisions on the NFI web application for the NFI team to review prior to matching the data. Private sector and other public sector participants will, as now, be able to participate on a voluntary basis.

122 The proposed approach could help participants identify potential fraud in a wide range of areas. These include:

- housing waiting list – by submitting details of an individual near or at the top of the list for matching against the NFI datasets to confirm the individual is not ineligible for social housing before offering a tenancy;
- housing benefit – by submitting benefit claimant details for matching against Amberhill information on known stolen/false identities before awarding benefit; and
- blue badges – by submitting applications for matching against deceased person records before issuing the badge.

Extending the coverage of the NFI

Central government

123 We welcome the support that some government departments give to the NFI by providing data about claimants, deceased people and immigration status. We also welcomed the decision by DCLG to become the first central government department to take part in the NFI by submitting its payroll data for matching.

DCLG was the first central government department to take part in the NFI

124 The Cabinet Office Fraud, Error and Debt Taskforce recognises the opportunity the NFI offers. Its interim report published in June 2011 recommended that the NFI should be deployed ‘more widely as a near real-time tool to enable data matching between departments and between central and local government’. (Ref. 16)

125 The Commission has made extensive efforts over the years to encourage departments to participate voluntarily in the NFI. However, we have been unable to get them to do so.

126 It makes good business sense for government departments to take advantage of the benefits of participation in the NFI, particularly in the current economic climate. Even if a body considers their arrangements for preventing and detecting fraud to be sound, taking part in the NFI is still important as it can:

- provide assurances to the accounting officer about the effectiveness of their department's control arrangements, and therefore strengthen the evidence for the Annual Governance Statement;
- identify fraud, and therefore fraud risks, that the department may otherwise be unaware of; and
- help identify fraud against other NFI participants in the wider public sector and the private sector.

127 We will again invite all government departments to take part in the NFI 2012/13 exercise and to access our new range of real-time and flexible batch data matching services. However, we think the government should now take a stronger lead by requiring all government departments and their arm's length bodies to take part in the NFI.

Housing associations

128 Housing associations are not mandatory participants in the NFI. Despite clear evidence that the NFI is a powerful tool for detecting tenancy fraud and the increased focus on housing tenancy fraud over the last two years, fewer than 6 per cent of the 1,632 housing associations registered on 31 December 2010 (Ref. 17) currently elect to take part.

129 Taking part in the NFI will help address tenancy fraud against all housing associations and councils. In *PPP 2011* (Ref. 2) we recognised that current funding arrangements mean there are few, if any, financial incentives for housing associations to tackle tenancy fraud. Although some housing associations are working successfully with councils to tackle tenancy fraud, this is not yet widespread. However, to reduce the current pressures on social housing it is important that everyone plays their part. We believe that all housing associations should show their commitment to tackling tenancy fraud by taking part in future NFI exercises.

130 We will continue to encourage housing associations to take part in the NFI voluntarily. We will also urge the Homes and Communities Agency and DCLG to identify a way to promote the benefits of the NFI to the sector and ensure more housing associations take part in the NFI 2012/13. As the necessary legislative changes are made to transfer the Commission's data matching powers to another body, we hope the opportunity is taken to make housing associations mandatory participants in the NFI.

Government should now take a stronger lead by requiring all government departments and their arm's length bodies to take part in the NFI

The private sector

131 Both the NFI batch and real-time data matching services offer real benefits for companies. They can, for example, provide mortality screening services or identify employees whose immigration status means they have no right to work in the UK. We will continue to work with our existing private sector participants and encourage others to take part.

Widening the NFI for other purposes

132 Section 32H of the Audit Commission Act 2007 gave powers to any Secretary of State to extend the Commission's data matching powers for purposes other than the detection and prevention of fraud. The Act defines these other purposes as being to assist in the:

- prevention and detection of crime other than fraud;
- apprehension and prosecution of offenders; and
- recovery of debt owing to public bodies.

133 In our discussions on the future of the NFI with DCLG and other stakeholders, we will argue the case for extending our data matching powers to cover the additional purposes outlined above. We hope the proposed legislation to transfer the Commission's data matching powers to a new owner will provide the opportunity to do this. We have also suggested a further extension to allow data matching for the prevention and detection of error and maladministration.

134 There is also potential for the NFI to help deliver wider government initiatives, subject to development of a strategy that fits within the general law on sharing of data. This could provide scope for the NFI to assist:

- the NFA and the Cabinet Office in their development of an Intelligence Sharing Roadmap (Ref. 18) – by sharing the details of fraudsters identified through NFI with the proposed counter-fraud checking service; and
- the Cabinet Office's Identify Assurance Programme (Ref. 19) – by using the NFI databases to validate the information provided by an individual.

Appendix 1: Report calculations

An explanation of how we calculate the figures for frauds, overpayments and outcomes used in the report is shown in the following table.

Table 5: **Report calculations**

Data Match	Already delivered (£million)	Estimated (£million)	Total (£million)	Basis of calculation of estimated outcomes
Housing benefit	18.34	13.00	31.34	Weekly benefit reduction multiplied by 13.
Local government pensions	9.67	52.12	61.79	Cabinet Office formula: annual pension multiplied by the number of years until the pensioner would have reached the age of 90.
Other public sector pensions	2.13	27.24	29.37	Same as local government pensions above.
Blue badges	0	16.01	16.01	Number of badges confirmed as deceased multiplied by £500 to reflect lost parking and congestion charge revenue.
Private residential care homes	0.83	1.95	2.78	£5000 per case based on average weekly cost of residential care multiplied by 13.
Tenancy fraud	0	17.63	17.63	£75,000 per property recovered based on average three year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; relet cost; and rent foregone during the void period between tenancies.
Right to buy	0.06	0.26	0.32	£26,000 per application withdrawn to reflect average value of discount.

>>>

Data Match	Already delivered (£million)	Estimated (£million)	Total (£million)	Basis of calculation of estimated outcomes
Payroll	4.50	3.24	7.74	£5,000 per case (£10,000 for immigration cases).
Trade creditors	4.70	0.02	4.72	
Private sector pensions	0.37	6.25	6.62	Same as local government pensions above.
Council tax SPD	50.37	0	50.37	
Total ⁱ	90.97	137.72	228.69	

Source: Audit Commission

ⁱ The amounts included in this table relate to England results only and are subject to rounding.

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk

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The National Fraud Initiative

Council members' briefing, May 2012



The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Introduction

This briefing for elected members outlines the benefits from participating in the National Fraud Initiative (NFI), the Audit Commission's data matching exercise. It explains how the NFI helps councils fight fraud and sets out how the Commission plans to improve the NFI. It includes a checklist for members on page 9.

Fraud is a serious problem

1 In its recent *Annual Fraud Indicator*, the National Fraud Authority (NFA) estimates that fraud in the public sector costs £20.3 billion a year. This amounts to £390 for every adult in the UK. The cost of fraud to local government is estimated at £2.2 billion a year.

2 Councils need strong anti-fraud cultures and effective counter-fraud policies and procedures that stress the unacceptability of fraud and its serious consequences. Members have a key role in ensuring that their council checks regularly the effectiveness of its arrangements for preventing and detecting fraud.

3 The NFIⁱ combats the threat of fraud by comparing information held by different organisations to identify potentially fraudulent claims and overpayments.

4 The key strength of the NFI is that it brings together a wide range of different organisations, working together in partnership to tackle fraud. Fraudsters will often target different organisations at the same time, using the same fraudulent identities.

The Audit Commission runs the NFI to help detect fraud, overpayments and error

5 Since 1996, the Audit Commission has run the NFI data matching exercise every two years, helping to identify nearly £939 million of fraud, overpayments and error across England, Scotland, Wales and Northern Irelandⁱⁱ. Of this total, £813 million has been detected in England.

6 We run the NFI in partnership with the public audit agencies in Northern Ireland, Scotland and Wales. Aggregate outcomes for bodies in Scotland,

ⁱ The government has confirmed it intends to continue the NFI after the Audit Commission's abolition.

ⁱⁱ Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up and under 0.5 rounded down.

Wales and Northern Ireland since they first started to run the NFI are £127 million.

7 Some 1,300 participating organisations from across the public and private sectors provide data, and key data sets are provided by government departments and other national agencies.

8 Participants include all local councils, police authorities, and fire and rescue authorities and local NHS bodies, who are required by law to provide data for the NFI. A number of other public sector and private sector bodies also participate on a voluntary basis.

9 Table 1 shows examples of the data matches that we undertake and why. Where a match is found it indicates that there is an inconsistency that requires further investigation by the body. The investigation may detect instances of fraud, over or underpayments, and other errors. For example, payroll to housing benefit matches can identify employees who may be committing benefit fraud by not declaring their earnings; pension matches may identify a person as being listed as dead, but still in receipt of a pension.

10 A match does not automatically mean there is a fraud. Often there is a straightforward explanation for a data match that prompts bodies to update their records and to improve their systems.

Table 1: **Examples of the data matches the NFI undertakes**

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Payroll records to records of failed asylum seekers and records of expired visas.	Obtaining employment while not entitled to work in the UK.
Blue badges records to records of deceased people.	A blue badge being used by someone who is not the badge holder.
Housing benefit payments to records of housing tenancy.	Claiming housing benefit despite having a housing tenancy elsewhere.
Council tax records to electoral register.	A council taxpayer gets single person discount (SPD) because the person is living with other countable adults, which means the council taxpayer does not qualify for a discount.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

Source: Audit Commission

The NFI operates within a strong legal framework using secure web applications and systems

11 The NFI works within a strong legal framework, including the Data Protection Act 1998, which protects individuals' personal data.

12 Data matching exercises are carried out under statutory powers in Part IIA of the Audit Commission Act 1998, which contains important safeguards on the use and disclosure of data, including the requirement for a statutory *Code of Data Matching Practice*.

13 The Code helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards that the Commission has always considered essential to the effectiveness of the NFI. It also promotes good practice.

14 The NFI's data matching systems and processes comply with all relevant government information security standards.

Secure data transfer process

- Datasets are transferred by participants to the Audit Commission via a secure NFI website using an electronic transfer process which encrypts data on upload.
- All the matches are provided back to participants using the same secure tool.
- Access to the tool and NFI matches is controlled by secure password, and strict controls exist to ensure access is only provided to authorised individuals.

The NFI has helped participants find record levels of fraud, overpayment and error

15 Since we last reported in May 2010, the NFI has identified fraud, overpayments and errors in England totalling almost £229 million. This represents a 25 per cent increase on the total for the previous reporting period (£183 million)ⁱ.

16 The total comprises outcomes already delivered of £91 million and estimated outcomes of £137 million. These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

17 The main categories of fraud identified by the NFI in England since May 2010 continue to relate to pensions (£90 million), council tax (£50 million) and housing benefit (£31 million).

ⁱ For national reporting purposes, outcomes are collated at two-yearly intervals as at 31 March. Outcomes submitted by participants after this date are included in subsequent reports.

The exercise also produced other significant results

- 164 employees were dismissed or asked to resign because they had no right to work in the UK.
- 235 properties were recovered for social housing.
- 321 false applications were removed from housing waiting lists following a pilot with London borough councils.
- 731 people were prosecuted.
- 31,937 blue badges and 51,548 concessionary travel permits were cancelled.

Making the most of the NFI

18 Data matching showing little or no fraud and error assures councils about the effectiveness of their control arrangements. It also strengthens the evidence for their Annual Governance Statement. It can identify fraud, and therefore fraud risks, which the council was unaware of; and help identify fraud against other NFI participants.

19 The NFI's full potential is only realised if the bodies that take part (a) supply all the required data on time; and (b) undertake appropriate follow-up investigations of the matches promptly and thoroughly.

20 The more effectively councils follow up their NFI matches, the more benefits they get.

21 For each exercise we consider how well councils use the NFI taking into account the views of the external auditor. While most councils have sound arrangements in place for managing the NFI and for investigating data matches, there is still scope to do better.

- The NFI matches are not seen by some councils as a valuable source of intelligence and therefore they are not being given appropriate priority.
- Not all councils are making use of the tools within the web application to help them identify high-priority matches linked to local risks.
- Some councils are using alternative matching services from commercial providers before they have followed up their NFI matches.

Role of members

22 Councils that have the most successful counter-fraud strategies are generally those where there is strong support at a senior level, led by elected members, chief executives and directors of finance. These councils also have an effective anti-fraud culture in place, so employees have a clear understanding of the role they can play in tackling fraud.

23 We welcome increased engagement by elected members in the NFI. A checklist has been included on page 9, which contains a series of questions that members can put to the director of finance/NFI senior responsible officer. The responses will help members understand how the NFI is being used within their organisation and importantly identify if the benefits of participation are being maximised.

Looking to the future

24 Following the announcement, in August 2010, of its intention to abolish the Audit Commission, the government has confirmed it intends to continue the NFI. The Commission will work closely with the Department for Communities and Local Government and other stakeholders to secure the most appropriate home for the NFI.

25 While the Commission retains oversight of the NFI it will continue to develop the NFI to address emerging fraud risks, with an increasing focus on fraud prevention.

Real-time and flexible data matching

26 The NFI launched a real-time service in September 2011, marking an important shift from fraud detection to fraud prevention.

27 The Commission has consulted councils on how the real-time service should be expanded to help them target fraud prevention – for example, to identify the anomalies that may signal fraud before an application for a benefit or service is approved. The new service will offer a flexible range of options, including real-time and flexible batch data matching, and councils will be able to decide locally on the data they want to supply for matching.

28 These new approaches to real-time and flexible batch matching could help councils identify potential fraud in a wide range of areas. These could include:

- housing waiting lists – by submitting details of an individual near or at the top of the list for matching against the NFI datasets to confirm the individual is not ineligible for social housing before offering a tenancy;
- housing benefit – by submitting benefit claimant details for matching against the Metropolitan Police’s Amberhill information on known stolen/false identities before awarding benefit; and
- blue badges – by submitting applications for matching against deceased person records before issuing the badge.

29 These flexible services could be used by councils to deliver many of the recommendations made by NFA in its *Fighting Fraud Locally* strategy.

New fraud risks

30 In the Audit Commission’s annual survey of detected fraud in local government, councils have reported significant new fraud risks from the move to personal budgets in social services. In response, we are looking to develop a pilot data match in this area as part of the NFI 2012/13.

Widening the NFI for other purposes

31 We believe the NFI could secure even better outcomes if it were extended to cover non-fraud purposes, as the legislation already allows any Secretary of State to do. These other purposes are defined as being to assist in the:

- prevention and detection of crime other than fraud:

- apprehension and prosecution of offenders; and
- recovery of debt owing to public bodies.

Want to find out more about the NFI?

32 To find out more about the NFI, go to our web page, where you will find a copy of the May 2012 national report as well as other useful information.

www.audit-commission.gov.uk/fraud/nfi/

Table 2: **The NFI – A checklist for members**

Question	Answers/action required
<p>The NFI in our council</p> <ul style="list-style-type: none"> ■ What is the role/post of the senior responsible officer accountable for the NFI in our council? ■ Do we have a lead elected member for counter-fraud activity, including the NFI? ■ What role does our audit committee play? ■ How are other elected members or non-executive members kept informed of the NFI? ■ What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI? ■ Who decides and monitors this approach? ■ How is the NFI reflected in the governance training and development provided for officers and board/elected members? 	
<p>Maximising results</p> <ul style="list-style-type: none"> ■ What resources do we invest in the NFI? ■ What were our outcomes from the most recent NFI? ■ Are we ensuring we maximise the benefits of the NFI – for example, following up data matches promptly, recovering funds and prosecuting where possible? ■ What assurances have we drawn about the effectiveness of internal controls and the risks faced by the organisation? ■ What changes have we made as a result? ■ Do those responsible for the NFI in the council feel they get appropriate support from other managers in the council when investigating matches? 	
<p>Broadening our council's engagement with the NFI</p> <ul style="list-style-type: none"> ■ Are we taking advantage of the opportunity to suggest and participate in NFI pilot data matching? ■ Have we considered how we could use the new flexible batch and real-time matching services? 	
<p>Data Security</p> <ul style="list-style-type: none"> ■ What is our strategy/policy for data security? ■ Is there any specific reference to the NFI data security in the strategy 	
<p>The NFI fit with wider counter-fraud policies</p> <ul style="list-style-type: none"> ■ How does the NFI influence the focus of our counter-fraud work? ■ Does our counter-fraud policy include reference to the council's participation in the NFI? ■ Do we publicise the outcomes from the NFI? ■ How does the NFI influence how and what we communicate to the public about our approach to counter-fraud? ■ Are the outcomes from the NFI used to inform our wider decision making – for example, internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy? 	

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-002-2012/13

Date of meeting: 21 June 2012

Portfolio: Finance and Economic Development

Subject: Internal Audit Annual Report 2011/12 and Review of the Effectiveness of the System of Internal Audit

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) The Committee is requested to note the following report for 2011/12 and the assurance level given;**
- (2) The 2011/12 Audit Plan status report as at 31 March 2012(Appendix 2);**
- (3) To note the review of the effectiveness of the system of internal audit, undertaken by the Corporate Governance Group for 2011/12, in the context of the Council's Governance Statement; and**
- (4) To scrutinise the review and consider the effectiveness of the system of internal audit in 2011/12.**

Executive Summary:

This report is presented in support of the Internal Audit opinion on the adequacy of EFDC's internal control environment, provides a summary of the work undertaken by the Internal Audit Unit between April 2011 and March 2012 and details the overall performance against the Audit Plan for 2011/12.

The Accounts and Audit Regulations include a requirement for the Authority to carry out an annual review of the effectiveness of its system of internal audit as part of the wider review of the effectiveness of the system of governance.

This report summarises the review undertaken for 2011/12 by the Corporate Governance Group, to assist the Committee in assessing the effectiveness of the system of internal audit on behalf of the Authority.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

To provide the Committee with the opportunity to scrutinise the review of effectiveness.

Other Options for Action:

No other options.

Report:

Introduction

1. The Internal Audit Annual Report for 2011/12 is based on the “Code of Practice for Internal Audit in Local Government” produced by CIPFA. The work referred to in this report was carried out as part of the agreed Audit Plan for the period from 1 April 2011 to 31 March 2012.

2. The purpose of the report is to support the Internal Audit opinion on the adequacy of Epping Forest District Council’s (EFDC) internal control environment as a contribution to the proper, economic, efficient, and effective use of resources. This report provides part of the evidence that underpins the Corporate Governance Statement published in the Council’s Statutory Statement of Accounts, in line with the requirements of the Accounts and Audit Regulations 2006.

External Audit

3. The Authority’s External Auditor has a statutory responsibility to express an independent opinion on EFDC’s accounts, performance management and the financial aspects of corporate governance. The Audit Commission, who moved all principal audited bodies on to a “fee for audit” basis several years ago, appoints the External Auditor. The Audit Commission has to be confident in the processes and procedures at EFDC to produce the accounts by the statutory deadline each year, as well as being able to place reliance on the work of Internal Audit.

4. Internal and External Audit work closely together to avoid duplication of audit effort and to ensure that the Council receives comprehensive audit coverage.

The Role of Internal Audit

5. Internal Audit is provided in the context of the Council’s statutory responsibility to make arrangements for the proper administration of its financial affairs. It is an assurance function that primarily provides an independent and objective opinion to the Council on the adequacy of the control environment, as a contribution to the proper, economic, efficient and effective use of resources.

6. The main elements of the work are to:

- (a) audit and report on the core financial controls throughout the Authority;
- (b) provide advice during the development of new systems;
- (c) provide advice on financial, contractual and IT controls, including Financial Regulations and Contract Standing Orders;
- (d) review computer and network security;
- (e) investigate suspected fraud, corruption, bribery and other irregularities;
- (f) monitor the Anti-fraud strategy and participate in the National Fraud Initiative;
- (g) keep Management Board and the Corporate Governance Group informed of key issues;
- (h) liaise with the Audit Commission and their appointed External Auditors; and
- (i) report to the Audit and Governance Committee on key issues arising from audits and on the performance of the Audit team.

Performance against the Audit Plan

7. Whilst the majority of planned audits, including all of the key audits of financial systems, were completed by 31 March 2012 a small number have been rolled forward into the 2012/13 plan due primarily to the long term sickness of a member of staff who has now left the Council. The prioritisation of Audits was based on a risk evaluation and the audits that were rolled forward were considered to be of a lower priority.

8. The number of audits carried out in 2011/12 was less than the previous year, due to 2010/11 including the audits that were contracted out to Deloitte. With the ending of that contract the audit plan was reduced due to a more focussed review of the higher risk areas, resulting in a financial saving for the Council as previously reported.

9. During the year, 34 reports were issued to Management with the following assurance levels:

Assurance Level	2011/12	2010/11
Full Assurance	3	4
Substantial Assurance	29	37
Limited Assurance	2	7
No Assurance	0	0

10. The recommendations made within the audit reports are given a priority rating of 1 to 3, with priority 1 being the highest. These priority 1 recommendations are now monitored by the Corporate Governance Group to ensure that action is taken and these actions are reported quarterly to the Audit and Governance Committee. The recommendations are included in detail as appendices to the four quarterly reports to the Audit and Governance Committee.

Priority Level	Number Issued 2011/12	Number Issued 2010/11
Priority 1 - High	17	29
Priority 2 - Medium	53	80
Priority 3 - Low	12	18

Opinion

11. Although work continues to improve awareness of governance requirements and to promote improvement in systems, overall full assurance cannot be given and risks cannot be totally minimised. On this basis, the opinion given in this report provides a reasonable level of assurance that there are no significant weaknesses in the Council's control environment as the audits carried out during 2011/12 concluded that systems were generally operating satisfactorily, and appropriate follow up action had been taken where required to reduce risk of error or fraud.

12. No material errors were identified from Internal Audit work carried out on the Council's major financial systems during 2011/12. Reviews of the Council's overall systems of internal control identified some weaknesses in the application of Financial Regulations, Contract Standing Orders and internal controls. These have been referred to in reports to the Audit and Governance Committee, and in the Council's Governance Statement.

13. To assist non financially trained managers' understanding of finance and governance issues, advice is regularly given by the Audit team and training has been provided by an external supplier supported by the Director of Finance and ICT and the Chief Internal Auditor.

14. Work continues on a summary of Contract Standing Orders which will simplify the process to

be followed during procurement exercises.

15. The level of assurance on the Council's systems of internal control that can be given by the Chief Internal Auditor takes into account:

- All audit work completed during 2011/12;
- Follow up actions from previous years audits;
- Management's response to findings and recommendations;
- The resources available to deliver the audit plan;
- The certification of Service Directors in their assurance statements;
- Internal Audit performance in 2011/12;
- The reliance placed on the work of Internal Audit by the External Auditor; and
- Relevant information in Audit Commission reports, such as Protecting the Public Purse.

16. Taking all of the available information into account, in particular the audit work completed, it is considered by the Chief Internal Auditor that the Council has in place a satisfactory framework of internal control, which provides reasonable assurance regarding the efficient and effective achievement of its objectives in 2011/12.

Performance Management

17. The Internal Audit Team has local performance indicator targets to meet in 2011/12, as set out below:

	<i>Actual 2008/09</i>	<i>Actual 2009/10</i>	<i>Actual 2010/11</i>	<i>Target 2011/12</i>	<i>Actual 2011/12</i>
<i>% Planned audits completed</i>	95%	87%	82%	90%	82%
<i>% chargeable "fee" staff time</i>	71%	69%	66%	72%	71%
<i>Average cost per audit day</i>	£309	£300	£307	£300	£213
<i>% User satisfaction</i>	85%	94%	86%	85%	89%

18. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan as amended for additional work (eg investigations) during the year;

(b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system;

(c) Average cost per audit day - the calculation is based on the costs for each quarter divided by the number of fee earning days extracted from the time recording system. As previously reported, a reassessment of what constitutes productive time, based upon information from the CIPFA benchmarking club and comparator information currently being shared between Uttlesford, Harlow, Broxbourne and EFDC has resulted in a new baseline for this indicator. The target for 2012/13, based on the comparator information is £245; and

(d) % User satisfaction - a calculation is made each quarter based on returned client surveys for each audit giving a score on a five point scale 0 (poor) – 5 (excellent). The score is backed up by the client's comments on a range of issues related to the audit.

19. The figures for planned audits completed of 82% (target 90%) and the percentage of

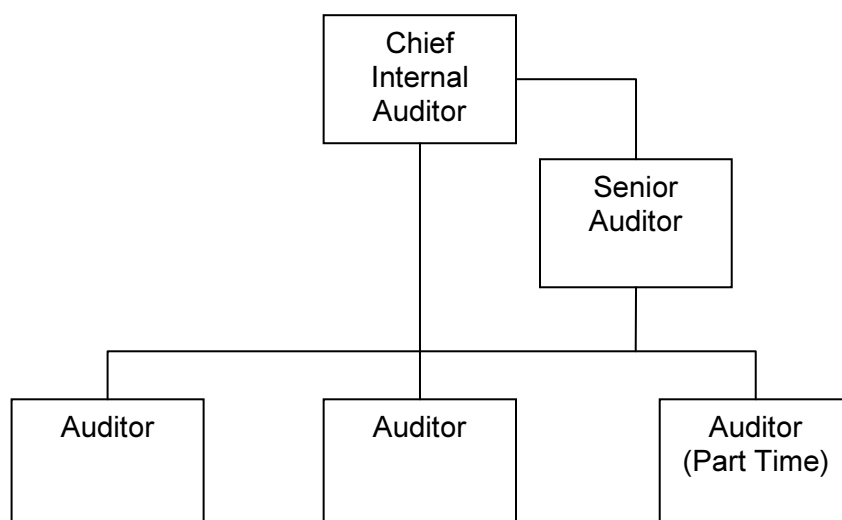
chargeable staff time of 71% (target 72%) being below target are both due to the long term sickness of the part time member of staff, who resigned in early March and study days for a member of staff studying for the Institute of Internal Auditors professional qualification, who has now passed two of the five modules and will be sitting two more in June 2012.

20. Staff have now received specialist IT audit training and are booked on a specialist procurement audit course in the first quarter of 2012/13 to enable more targeted work on areas of higher risk.

The Audit Team

21. The Team currently has an establishment of 4.4 full time equivalent (fte) Internal Auditors.

22. The establishment throughout 2011/12 is set out below:



Review of Effectiveness of Internal Audit

23. Regulation 6 of the Accounts and Audit Regulations requires the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices. In EFDC the system of internal audit consists of the work of the Internal Audit Team, although supervisory processes in all Directorates provide a control and risk management function that could be defined as contributing to the system of audit. For this purpose, however, the work of the Internal Audit Team is seen as the focus of the review of effectiveness.

24. The Council is required to carry out an annual review of the effectiveness of its system of internal audit, as part of a wider review of the effectiveness of the system of governance. It is the responsibility of the Authority to undertake the review, and not the External Auditor. The Audit and Governance Committee is the most appropriate body to oversee the review of the system of Internal Audit, as it is independent of the management of the Authority.

25. The framework for the review should demonstrate that the Internal Audit service is:

- (a) meeting its aims and objectives;
- (b) compliant with the CIPFA Code of Practice;
- (c) effective, efficient and continuously improving; and

- (d) adding value and assisting the Authority in meeting its objectives.
26. The framework must also include, but not be limited to:
- (a) a comprehensive set of targets to measure performance;
 - (b) user feedback for each individual audit and periodically for the whole service;
 - (c) internal quality reviews to be conducted periodically to ensure compliance with the CIPFA Code of Practice; and
 - (d) an action plan to implement improvements.
27. The objective of these measures is to ensure that the performance and effectiveness of the Internal Audit service improves over time, in terms of both the achievement of targets and the quality of service provided to the user.
28. Along with compliance with the Code of Practice, the review is to agree the effectiveness of the service. The outcome of the review is independent confirmation that the opinion in the annual report of the Chief Internal Auditor may be relied upon as a key source of evidence in the Governance Statement.
29. Measures of effectiveness put in place by the Chief Internal Auditor are based on existing reports and performance indicators, generally designed to measure outputs and outcomes. The key effectiveness measures are:
- (a) completion of the annual audit plan (Local Performance Indicator);
 - (b) productive audit time as a percentage of total time (LPI);
 - (c) cost per audit day (LPI);
 - (d) achieving client service satisfaction (LPI);
 - (e) completion of audits within budgeted days; and
 - (f) finding improvements in control during each audit.
30. The measures referred to in the previous paragraph are monitored by Senior Management and Members via the following reporting processes:
- (a) Preparation of the Annual Internal Audit Plan;
 - (b) Periodic monitoring reports by the Chief Internal Auditor, including:
 - (i) Quarterly Monitoring reports including Audit Plan progress;
 - (ii) Reports on significant findings;
 - (iii) Local performance indicators as referred to above; and
 - (iv) Results of customer satisfaction surveys; and
 - (c) Annual report and opinion of the Chief Internal Auditor.
31. The Council's Internal Audit Team issue a survey sheet after each main audit, and these are used in calculating one of the Team's local performance indicators, as well as providing feedback on

Directorates' perception of the quality of the work and professionalism of the audit staff. An overall score of between 1 (poor) and 5 (excellent) is requested from the clients and of the questionnaires returned, 54% were scored at 5, 36% at 4 and 10% at 3, from a return rate of 32% (26% 2010/11). Additional comments on the work of Internal Audit were invited, and where provided were constructive and showed a good level of understanding of the audit process.

32. The Council's External Auditors, PKF (UK) LLP, conduct a thorough review of the quality of Internal Audit's work on financial systems each year, in assessing the extent of reliance that can be placed on the work, in the context of their audit of the Council's Statutory Accounts. The Annual Governance Report 2010/11, issued by PKF in September 2011 stated:

"Where possible, we have sought to use Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:

- reviewed Internal Audit's working papers and reports*
- considered the robustness of the key financial systems on the evidence of this work*
- re-performed Internal Audit's evaluation of controls and a sample of its testing of the effectiveness of controls, to ensure that its conclusions are soundly based.*

We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls."

33. The review of effectiveness does not specifically include any aspect of value for money of the Internal Audit Team. Whilst this is an important issue in itself (and is a local performance indicator for the Team), the focus of this review is on the delivery of the internal audit service to the required standard in order to produce the required outcome i.e. a reliable assurance on internal control and other governance arrangements, and the management of risks in the authority.

34. The Council's Corporate Governance Group has undertaken the review of the Council's Internal Audit Service in 2011/12 utilising the following main sources of evidence:

- (a) the annual report and opinion of the Chief Internal Auditor;
- (b) a review of the Internal Audit Service against CIPFA standards using a check list provided in the guidance and included in the CIPFA Benchmarking return;
- (c) a review of Internal Audit monitoring reports for 2011/12;
- (d) any comments from the Acting Chief Executive following consideration of individual audit report summaries;
- (e) the role of the Corporate Governance Group monitoring the work of Internal Audit and any significant internal control issues raised in their reports;
- (f) consideration of significant corporate control issues highlighted in audit reports, discussed within the Management Board;
- (g) performance by Internal Audit against local performance indicators;
- (h) the Internal Audit section of the Office of the Chief Executive Business Plan and work plans; and
- (i) Assessment by the Audit Commission appointed auditors (PKF).

Summary of Findings

35. The Internal Audit Section can demonstrate that it has a good understanding of the functions of the Council and has achieved the Council's objective to identify improvements to its control systems. The performance of the Unit has remained close to its key targets and while the actual audits achieved (82%) fell short of the target (90%) for completion of the audit plan due to sickness during the year, all fundamental financial systems were examined and reported on. The Council's External Auditors were able to place reliance on the work of Internal Audit when conducting their formal review of the Team's work as part of their review of the 2010/11 accounts.

36. The CIPFA Code of Practice checklist has been included in the CIPFA Benchmarking return as a required data set. This Good Practice Questionnaire returns an automated compliance score, of which the Internal Audit Section have scored 189 out of a maximum of 192 (98%) (last year 186). The areas of non or partial compliance will be reviewed over the coming year and action taken to address any weaknesses.

37. The work of the Audit and Governance Committee, with independent membership, makes an important contribution to the independent review of internal and external audit processes, as part of the Council's arrangements for securing further improvements in its systems of governance, including internal control. The Annual Report of the Audit and Governance Committee for 2011/12 demonstrated the range of issues addressed during the year.

38. It is felt that the Audit Committee throughout 2011/12 has complied with the key features of an Audit Committee as expressed by CIPFA, specifically that the Committee had:

- (a) A strong Chairman displaying depth of skills and interests;
- (b) An unbiased approach to its work;
- (c) The ability to challenge the Executive when required; and
- (d) A membership that is objective, independent and knowledgeable.

39. In the opinion of the officers attending the Audit and Governance Committee, the continued support given by Members, in particular by insisting on timely and positive responses to audit recommendations, is invaluable in reinforcing the message of sound governance.

40. Having considered these issues, the Corporate Governance Group is satisfied that the Authority's system of Internal Audit was effective during 2011/12.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Audit files and working papers

Impact Assessments:

Risk Management

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this report assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

Priority Ratings

Each audit finding will generate an audit recommendation. These recommendations will be prioritised in accordance with the following criteria:

Priority 1 – Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation. Failure to apply a Financial Regulation or Contract standing Order will normally be in this category.

Priority 2 – Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.

Priority 3 – Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.

Assurance levels:

The level of assurance to be applied will be based on the auditor's assessment of the extent to which system objectives are met, with the agreement of the Chief Internal Auditor. As a guide, the following triggers will be used, taking into account the level of risk of error, loss, fraud or damage to reputation.

Overall assignment rating	Level of assurance and definition Trigger (number of individual audit recommendations)
1 Full Assurance –	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied. Priority 3s or no audit recommendations.
2 Substantial Assurance –	There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk. Priority 2s and 1 Priority 1 (if assessed as a low risk).
3 Limited Assurance –	There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk. Between 1 and four 1s and (usually) several Priority 2s.
4 No Assurance –	The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity. Five or more Priority 1s.

Status Report at 31st March 2012

Appendix 2

AUDIT PLAN 2011/12

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	PKF
Sundry Debtors	system/follow up	20	Completed	PKF
Creditors	system/follow up	20	Completed	PKF
Treasury Management	system/follow up	15	Completed	PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10	In Progress	PKF
Risk Management and Insurance	system/follow up	15	Completed	PKF
Main Accounting and Financial Ledger	system/follow up	15	In Progress	PKF
Housing Benefits	system/follow up	25	In Progress	PKF
Council Tax	system/follow up	25	In Progress	PKF/R27/AC
National Non Domestic Rates	system/follow up	15	Completed	PKF/R27
Cash receipting and Income control	system/follow up	15	Completed	PKF
Provision for 'top up' testing	systems	15	Completed	PKF
Cash Office spot checks	verification	5	Rolled over	PKF
ICT				
Environmental controls/backup procedures	IT	10	Rolled over	PKF
Data and Network Security	IT	20	Completed	PKF
Disaster recovery/business continuity	IT	10	Rolled over	PKF/R8
TOTAL		250		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	follow up	5	Completed	R27
Building Control	system	20	Rolled over	R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	Completed	R20
Public Health / Pest Control	system	15	Completed	R27
Car Parking	system	20	In Progress	R27
North Weald airfield	establishment	15	Completed	R27
Leisure contract	contract	15	Completed	R20
TOTAL		85		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10	Rolled over	R
Electoral services – data quality		15	Deleted	R
TOTAL		25		
Audit area	Audit type	Days	Completed	Risk

		allocated		Identifier
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25	Completed	PKF/R27
Housing Lettings	follow up	5	Rolled over	AC
Depot	system/follow up	15	Completed	
Norway House	Follow Up	15	Completed	
Bed and breakfast contract	contract	5	Completed	
Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		70		
PARTNERSHIPS AND VOLUNTARY SECTOR				
Local Area Agreements	system	15	Deleted	R22
TOTAL		15		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25	Completed	PKF
Recruitment and Selection	Follow up	5	Rolled over	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10	Completed	R
Car Mileage claims	verification	10	Completed	R
Health and Safety Policy	system	5	Deleted	R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20	Completed	R9
Licensing	system	15	Completed	R27
Licensing Inforcement	Follow up	0	Completed	R27
Asset Management system	Follow up	5	Rolled over	R18
Non-HRA Repairs	verification	5	Rolled over	R2
Fleet Operations income	system	5	Rolled over	R27
Legal				
TOTAL		110		
Audit area	Audit type	Days allocated	Completed	Risk Identifier
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R

CONTRACTS				
Contract Compliance	System/follow up	15	Rolled over	R20
CORPORATE				
Corporate Procurement	system/follow up	15	Rolled over	AC/R2
Gifts and Hospitality (Officers)	system/follow up	10	Completed	R
Gifts and Hospitality (Members)	system/follow up	10	Completed	R
Data Protection Act	system	5	Rolled over	R18
Follow up of Priority 1 Audit recommendations	follow up	10	Completed	R23
CORPORATE MEETINGS				
Governance Statement	management review	5	Completed	AC/PKF
FRAUD AND CORRUPTION				
National Fraud Initiative (NFI)		15	In Progress	R23
TOTAL		110		
TOTAL DAYS ALLOCATED		690		
Contingency/Spot checks/Minor investigations		40		R23
Corporate/Service Advice		45		
TOTAL		775		

Risk Identifier

Key

AC

Audit Commission

PKF

External Audit

R no.

Risk No. in Corporate Register

Reputation of

R

Council

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: C-003-2012/13

Date of meeting: 21 June 2012

Portfolio: Finance and Economic Development

Subject: Annual Governance Statement 2011/12

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) The Committee is requested to consider, comment upon and approve the draft Governance Statement for 2011/12.

Executive Summary:

The Council's Statutory Statement of Accounts have been prepared in accordance with the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) 2006). Within the Regulations, and in accordance with defined 'proper practice', there is a mandatory requirement to publish an Annual Governance Statement (AGS). The arrangements are designed to provide the Authority with assurance regarding the adequacy of its governance arrangements, and identifying where those arrangements need to be improved.

Reasons for Proposed Decision:

To provide the Committee with the opportunity to scrutinise the draft Governance Statement.

Other Options for Action:

No other options.

Report:

1. In accordance with good practice the governance statement should include the following information:

(a) an acknowledgement of responsibility for ensuring there is a sound system of governance;

(b) an indication of the level of assurance that the systems and processes that comprise the authority's governance can provide;

(c) a brief description of the key elements of the governance framework, including reference to group or partnership activities where those activities are significant;

(d) a brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements; and

(e) an outline of the actions taken, or proposed, to deal with significant governance Issues.

2. The production of an AGS enables the Authority to use the review process positively and proactively to deliver assurance about governance arrangements within the Authority to stakeholders, and to develop better arrangements where the review finds areas in need of improvement. The process involves a comparison of achievements against the principles set out in the Authority's Local Code of Governance, and supports an intention and commitment to provide good governance.

3. The Annual Governance Statement is the product of an annual review by the Authority, of the effectiveness of the Council's governance arrangements. This includes an assessment of the effectiveness of its internal control arrangements. The AGS is published with the Statement of Accounts.

4. The AGS is derived partly from detailed reviews by all Service Directors of the effectiveness of the governance arrangements operating within their Directorate, by reference to a detailed checklist incorporating the key elements within the Local Code of Governance. As part of this process Directors have considered available evidence to demonstrate that these governance systems and processes are working effectively and as intended. All Directors have provided assurance statements indicating the level of assurance that can be placed on the effectiveness of key controls operating at service level. These statements are intended to be a balanced representation of the arrangements in place during the year, and to highlight those areas where improvement is required. Significant issues are commented upon in the Governance Statement.

5. Internal Audit focuses its work on providing an independent and objective opinion on the Council's internal controls, and submits an annual report and quarterly monitoring reports to this Committee, where significant audit findings and improvement areas are highlighted. The Chief Internal Auditor is required to include in the annual audit report an opinion on the overall adequacy and effectiveness of the Council's internal control environment, drawing attention to any issues that are relevant to the preparation of the Governance Statement. The annual audit report for 2011/12 is included on the agenda for this meeting, and includes an opinion that satisfactory assurance can be given regarding the adequacy of the Council's internal control system in 2011/12.

Resource Implications:

From existing resources.

Legal and Governance Implications:

No specific implications.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group and Service Directors.

Background Papers:

CIPFA Internal Audit Code of Practice, Audit reports and files.

Impact Assessments:

Risk Management

The preparation of the Annual Governance Statement is a key part of the Council's governance arrangements in demonstrating that there is a continuous review of the Council's internal control and risk management systems.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

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Epping Forest District Council

Annual Governance Statement 2011/12

1. Scope of Responsibility

- 1.1 Epping Forest District Council (EFDC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In addition, the Council has a key role with respect to Community Leadership, exercising its powers under the Community Wellbeing Act 2000, facilitating effective engagement and collaborative working through the auspices of One Epping Forest.
- 1.3 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.4 The Council has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is on our website at www.eppingforestdc.gov.uk. This statement explains how the Council has complied with the Code and also meets the requirements of Regulation 4 of the Accounts and Audit Regulations 2006, in relation to the publication of a Statement on Internal Control.
- 1.5 The Council's Code of Governance recognises that effective governance is achieved through the following core principles:
 - (i) focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
 - (ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles;
 - (iii) promoting values for the Council and demonstrating good governance through upholding high standards of conduct and behaviour;
 - (iv) taking informed and transparent decisions which are subject to effective scrutiny and management of risk;
 - (v) developing the capacity and capability of Members and officers to be effective;
 - (vi) engaging with local people and other stakeholders to ensure robust public accountability.

2 The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to fully achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks and the impact should they occur and to manage them efficiently, effectively and economically.
- 2.3 A governance framework has been in place at the Council for a number of years and has been effective for the year ended 31 March 2012 and up to the date of approval of the Statement of Accounts.

3 The Governance Framework

- 3.1 The Council has an established Council Plan setting out its objectives, and includes how the Council will monitor and report on its performance against the plan.
- 3.2 The Council facilitates policy and decision making via a Cabinet Structure with Cabinet Member portfolios. There are Standing Scrutiny Panels to cover key policy areas, Task and Finish Panels to undertake specific reviews and a co-ordinating Overview and Scrutiny Committee. An Audit and Governance Committee provides independent assurance to the Council on risk management and internal control and the effectiveness of the arrangements the Council has for these matters.
- 3.3 The Council has continued to review and improve its internal control environment through the introduction of new and updated policies and procedures, to ensure compliance with laws and regulations. A comprehensive corporate induction programme is in place and information regarding policies and procedures are held on the intranet, which continues to be enhanced and developed. The Council's Internal Audit function has continued to provide assurance in the financial processes and procedures of the Council and there are well established protocols for working with External Audit. The Audit Commission through its inspectorate functions has continued to review compliance with policies, laws and regulations within its remit while preparing for its impending abolition.
- 3.4 The Council's risk management arrangements are subject to regular review. Leadership to the risk management process is provided by the Director of Finance and ICT and the Portfolio Holder for Finance and Economic Development, who are the Officer and Member leads for risk management, respectively. The Council has approached embedding of risk management in accordance with best practice guidance, with a Corporate Risk Register supported by Directorate, Sectional risk registers and further planned training to ensure all staff are risk aware.

- 3.5 Financial management in the Council and the reporting of financial standing is undertaken through a General Ledger Financial Information System, eFinancials supplied by Advanced Business Solutions, which integrates the general ledger function with those of budgetary control. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way and corrective action is initiated.
- 3.6 The Council has adopted the Corporate Plan for 2011/12 to 2014/15. The Corporate Plan is the Council's key strategic planning document, setting out service delivery priorities over the four-year period, with strategic themes reflecting those of the Sustainable Community Strategy for the district. The Corporate Plan is an important element of the Council's Performance Management Framework and its corporate business planning processes, and informs the content of annual Business Plans to illustrate the work that Directorates and Services perform that directly contributes towards the achievement of the Council's corporate objectives. The Corporate Plan also provides the emerging policy foundation for the Medium-Term Financial Strategy.
- 3.7 As part of the duty to secure continuous improvement, new Medium-Term Aims have also been adopted for 2011/12 to 2014/15. The identification of the Council's service delivery priorities over the four-year period of the Corporate Plan, and the annual adoption of key objectives for each year of the Plan, provides an opportunity for the Council to focus specific attention on how areas for improvement will be addressed, opportunities exploited and better outcomes delivered for local people. A range of Key Performance Indicators (KPI) relevant to the Council's services and key objectives are also adopted each year. A number of the KPIs are used as performance measures for the key objectives, and relevant performance management processes are in place to review and monitor performance against the key objectives and KPIs, to ensure their continued achievability and relevance, and to identify proposals for appropriate corrective action in areas of under performance.

4. *Financial Management and Reporting*

- 4.1 The Council's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*. This statement contains five principles and the arrangements in place fully meet the requirements of each principle.
- 4.2 Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Chief Finance Officer. The systems of internal financial control provide reasonable but not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be promptly detected.
- 4.3 Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability.
- 4.4.1 The External Auditor (PKF) had, on 30 September 2011, presented their Annual Governance Report for 2010/11, which summarised the key issues arising from their work during the year. In respect of the Council's financial statements, some presentational misstatements of a material nature had been identified and subsequently corrected, but none of these had affected the Council's reported outturn. The restatement of balances for the previous financial year, as required for the

implementation of International Financial Reporting Standards, had been dealt with appropriately by the Council. Consequently, The report gave an unqualified opinion on the Council's financial statements, along with an unqualified Value for Money Conclusion.

- 4.4.2 The key findings of the report were that the Council's key financial systems were considered generally adequate as a basis for preparing the financial statements, however some control weaknesses had been identified in the Housing and Council Tax Benefits system. No material misstatements had been identified from the audit, although some presentational issues of a material amount had been corrected but had had no impact on the Council's reported outturn. One non-trivial but non-material error had been identified, this being £69,000 for the correction of the netting off of the upward revaluation of guest rooms with the impairment charge recognised in the Comprehensive Income and Expenditure Statement (CIES). In addition, the External Auditor also believed that the bad debt provision for sundry debtors had been overstated but this could not be quantified and was not considered material.
- 4.4.3 The key change for the audit of accounts in 2010/11 was the introduction of a set of financial statements based upon the International Financial Reporting Standards (IFRS). This had resulted in a number of significant changes in accounting practice but the Council had dealt with the implementation of these changes in an appropriate manner. The Council's External Auditors have reported that "The Council has put in place appropriate arrangements to adopt IFRS and to restate its previous UK GAAP based accounts. On review of the accounts we identified that the Council had not included the necessary note in relation to the Transition to IFRS as required under IAS 1 or the 1 April 2009 comparators in respect of the balance sheet notes to the accounts. This has been corrected within the revised financial statements".
- 4.4.4 The External Auditors also stated that "We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls".
- 4.4.5 The External Auditor had reviewed the Annual Governance Statement and the supporting review of effectiveness that had been undertaken and was satisfied that the Statement was not inconsistent with the evidence provided in the review of effectiveness and their knowledge of the Council.
- 4.4.6 The External Auditor identified some notable control weaknesses from their review of the Council's accounting and internal control systems, which adversely impacted the audit approach. These were:
- a) There were some disclosure errors identified during our audit that would have been avoided had the Council utilised *LAAP 88 - Closure of the 2010/11 Accounts and related matters* (CIPFA technical update) which is a technical update paper issued by CIPFA to support councils in preparing their accounts.
 - b) The Council's current methodology for setting its provision for bad and doubtful debts does not take into account trends in actual arrears collection rates. Current information indicates that the Council could be over-providing.
 - c) Included within long term debtors are 9 dwellings which the Council has sold a proportion of to former tenants. The Council doesn't have legal rights over the properties but are entitled to a percentage of the sale value. The Council has been adjusting each

dwelling's valuation based on average valuation changes over the last few years to ensure the correct valuation is included within the amount due to the Council. The Council has not had these dwellings revalued along with the remaining housing stock as they have not been assigned beacon values.

The assets were compared to similar dwellings included within the Valuer's report as at 1 April 2010 and the overall difference in valuation was trivial. However this practice has the potential to generate a non trivial difference in valuation in future years.

d) Two senior benefits staff did not perform 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims as documented within the Council's system notes for benefits.

e) Ad-hoc updates made to standing data within the benefits system do not go through the same controls process as annual parameter updates. This could lead to incorrect standing data being input into the system resulting in incorrect benefit being paid.

5 Standards Committee

- 5.1 During 2011/12, the Standards Committee has dealt with 11 complaints against Councillors. At the time of writing, there is one case (2 separate complaints) awaiting adjudication /under investigation.
- 5.2 The Committee continues to give advice and training on ethical governance issues and investigates/adjudicates on complaints against elected members It is also available to assist with interpretation of Council protocols.
- 5.3 The ethical framework and standards regime for elected members is currently in a transitional stage. The Localism Act 2011 has radically altered the arrangements which operated under previous legislation, removing many statutory provisions in favour of much greater local discretion. Codes of Conduct and complaints procedures are still a statutory requirement but the form these take is largely (but not completely) to be determined on a local basis. Standards Committees are now optional for any of the specified local authorities involved .Standards for England has been abolished as the regulatory body for England.
- 5.4 The Act introduces a new statutory requirement for the declaration of "Disclosable Pecuniary Interests" which replace the present personal and prejudicial interests. These have yet to be defined but government regulations to that effect are expected. Wilful failure to declare and participation in relevant decisions involving such interests is potentially a criminal offence. Where Councils opt to have a Standards Committee, these will no longer have voting independent members as part of their constitutions. These positions are replaced by new "independent persons" who have been given a role in advising and assisting the Monitoring Officer. Councillors and Standards Committees on these matters
- 5.5 A further review of the Planning Protocol is pending but is awaiting the full introduction of the new standards arrangements from July 2012. This review will take account of new provisions in the Act regarding pre-disposition, predetermination and bias in local authority decision-making. Planning and Legal Officers, planning agents and Town and Parish Councils have already made submissions concerning the protocol.

- 5.6 Considerable work has been undertaken by the Public Law Partnership (PLP) on the new standards arrangements so as to insure that common processes can apply in all Councils and across different areas. Officers of this Council have also held discussions with Parish & Town Councils in the Epping Forest District to determine whether a joint Parish standards Committee would be a workable arrangement.
- 5.7 Epping Forest District Council has agreed in principle to adopting the proposals of the PLP and to having its own Standards Committee. Final decisions on the new arrangements will be submitted to a Council meeting in June 2012.

6. Review of Effectiveness

- 6.1 The Council has responsibility for conducting an annual audit review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the Corporate Governance Group, the Chief Internal Auditor's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.
- 6.2 The Council contributes to the delivery of the Sustainable Community Strategy for the District through active participation on One Epping Forest, formerly the Local Strategic Partnership, and the alignment of the Key Themes of the Corporate Plan 2011/15 with the Community Strategy. This is supported by a planning framework which includes the Corporate Plan and Directorate/Service Plans. The Council, through the Finance and Performance Management Scrutiny Panel, monitors and reports on progress so that Members can see how issues are being tackled.
- 6.3 Directorate and Sectional business plans contain a variety of performance indicators and targets that are regularly reviewed.
- 6.4 The Council's Constitution, which includes Financial Regulations, Contract Standing Orders and Delegated Authorities, is required to be reviewed annually and this is carried out by a nominated group of officers led by the Deputy Monitoring Officer. This annual programme of reviews of Contract Standing Orders, Financial Regulations and Delegated Authorities continued as in previous years.
- 6.5 The Council has three statutory posts as follows:-
- Head of Paid Service - Chief Executive
 - Chief Financial Officer - Director of Finance and ICT
 - Monitoring Officer – Director of Corporate Support Services / Solicitor to the Council.

These officers, with the Deputy Chief Executive, Deputy Monitoring Officer and Chief Internal Auditor form the Corporate Governance Group who meet monthly. The group's terms of reference: are available on the Council's web site.

- 6.6 The Council continues to assess how its overall corporate governance responsibilities are discharged. As referred to earlier the Council has adopted the CIPFA/SOLACE guidance and adopted a revised local Code of Governance in 2008.
- 6.7 The Council is required to maintain an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations. The Internal Audit function is managed by the Chief

Internal Auditor and operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.

The annual Internal Audit work plan is discussed with senior officers and approved by the Audit and Governance Committee in consultation with the Finance and Performance Management Cabinet Committee.

All internal audit reports include an assessment of the adequacy of internal control and result in prioritised action plans to address any areas needing improvement.

These are submitted to Service Directors, and an executive summary is provided to the Acting Chief Executive and the relevant Portfolio Holder.

6.8 The review of governance incorporates the system of internal control. In previous years the Council's review of the effectiveness of the system of internal control has been supported by:

- Directorate assurance based on management information, performance information and Director assurance statements;
- The work undertaken by Internal Audit during the year;
- The work undertaken by the external auditor reported in their annual audit and inspection letter and other review reports;
- Other work undertaken by independent inspection bodies.

7. Governance – Service Issues and Improvements

7.1. Service Directors have reviewed the governance arrangements operating within their Service Areas using a detailed checklist, and have provided assurance statements confirming their belief that appropriate controls were in place during 2011/12. Significant areas where governance arrangements have been strengthened are detailed below.

7.1.1. Office of the Chief Executive

The electronic transfer of electoral roll data to the Audit Commission and other organisations and individuals entitled to the information has been under review and a significant risk has been identified of a breach in the Data Protection Act requirements attached to the electronic transfer of this data in unencrypted format.

In conjunction with the security officers of the Finance and ICT Directorate, this issue has been addressed and the measures designed to reduce that risk have been put in place.

7.1.2. Office of the Deputy Chief Executive

No significant weaknesses in internal control have been identified.

7.1.3. Corporate Support Services

No significant weaknesses in internal control have been identified.

7.1.4. Environment and Street Scene

A number of Internal Audit reports were issued during 2011/12 which required actions by the Directorate. Those reports requiring specific action by the Directorate included:

612 – North Weald Airfield
618 – Waste Management
621 – Leisure Management Contract
632 – Licensing Enforcement Follow Up

Action plans have been agreed between Internal Audit and the Directorate Management and steps have been taken to deal with the issues raised and ensure compliance.

7.1.5. **Finance and ICT**

During the first three quarters of 2011/12 there were no audits with limited assurance that related to the Directorate of Finance & ICT and follow ups have indicated positive progress on previous recommendations.

Last year the Governance Statement mentioned that a firm of bailiffs used by the Council had been placed in administration. Legal action has been pursued against the two directors of the company. A financial settlement was agreed with one of the directors and a charge has been obtained over the house of the other director. Ultimately, a full recovery of all money owed should be achieved. The procurement exercise for new bailiffs has been concluded and appointments made. Controls on the external bailiffs and the system of monitoring and reporting have been strengthened.

7.1.6. **Housing**

A number in Internal Audit Reports since the Housing Directorate has taken over responsibility for the former Building Maintenance Works Unit have highlighted internal control deficiencies within that section (now known as the Housing Repairs Service) with regard to procedures relating to the Stores.

Although, in monetary terms, discrepancies between actual and recorded stock are relatively small, the number of discrepancies is outside of an acceptable tolerance. The main problem is that the Council's IT system does not provide sufficient controls measures.

Since taking over the Stores, the Asst. Director (Property) has taken a number of steps to improve the position in the short term. However, improvement has been hampered by the limitations of the legacy IT system.

It had been hoped that these weaknesses could be addressed through the appointment of the Private Repairs Management Contractor (Mears) in May 2011. However, it has been established that this activity is not within the scope of the specification of the contract with Mears.

Therefore, a separate competitive tender is underway – in accordance with EU Procurement Regulations – to appoint a company to provide a material supply chain, with adequate control measures being a key component of the specification.

7.1.7. **Planning and Economic Development**

Corporately, there has been recognition that a flow chart to ensure compliance with Contract Standing Orders is necessary, in part because of their complexity, and, in part to ensure that the most up to date Orders are being applied. The flow chart will be a helpful tool.

The various financial systems do not allow for the highlighting of accumulated consultancy work, which would exceed contract standing orders to be avoided.

A review of procedures concerning consultancy work in respect of the St John's area of Epping revealed a number of issues which are being reported to Cabinet.

7.2. Governance – Internal Control Issues

Other areas have been highlighted in the review of the Council's systems of internal control and are listed below. In each case the Directors responsible have identified the risk involved and prepared plans to contain the risks and deliver the necessary improvements:

7.2.1. During the annual stock take at the Housing Repairs Service store Internal Audit had reported that the stock database records could not be relied upon as there were a significant number of discrepancies identified. Management has already taken action to address this issue. Please see 7.1.6.above.

7.2.2. Development Control income reconciliations are completed, and errors identified are recorded. However, whilst there has been some improvement since the last audit the reconciliation is not sufficient as it is between the general ledger and the Development Control paying in spreadsheet rather than the Planning system.

Some progress has been made as Development Control recognise the importance of performing monthly reconciliations and priority has been given to address the agreed actions from the previous audit. A partial reconciliation has been developed but has yet to be concluded and efforts have been made to produce reporting data from the Planning system to enable a full reconciliation to the general ledger.

8. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

Derek Macnab
Acting Chief Executive

Signed

Councillor Chris Whitbread
Leader of the Council

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: C-004-2012/13

Date of meeting: 21 June 2012

Portfolio: Finance and Economic Development

Subject: Internal Audit Monitoring Report - January to March 2012

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

1. The Committee is requested to note the following issues arising from the Internal Audit Team's fourth quarter monitoring report for 2011/12:

- (a) The reports issued between January and March 2012 and significant findings (Appendix 1);
- (b) The Outstanding Priority 1 Actions Status Report (Appendix 2);
- (c) The Limited Assurance Audits follow up status report (Appendix 3); and
- (d) The 2011/12 Audit Plan status report (Appendix 4).

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between January and March 2012, and details the overall performance to date against the Audit Plan for 2011/12. The report also contains a status report on previous priority 1 audit recommendations.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

Other Options for Action:

No other options.

Report:

Work Carried Out In The Period

- 1. The audit reports issued in the fourth quarter are listed in paragraph 5 below.
- 2. Audits completed in the fourth quarter have included a number of key financial systems which are reviewed by the External Auditors (PKF), the detailed findings of which are in appendix 1. At the end of the quarter a further five audits were substantially complete and at the draft report stage, these also included key financial systems and income streams which are reviewed by PKF.

3. Advice and guidance continues to be provided on a range of subjects which has included the application of Contract Standing Orders and Financial Regulations and the disposal of redundant stock and equipment.

4. The increase in the financial appraisals carried out by the Chief Internal Auditor of the accounts of potential suppliers of goods and services to ensure their sound financial standing has continued.

Reports Issued

5. The following audit reports were issued in the fourth quarter:

- (a) Full Assurance:
 - Cash Receipting and Income Control

- (b) Substantial Assurance:
 - Bank Reconciliation
 - Creditors
 - Commercial Property Management
 - Housing rents
 - Licensing Enforcement
 - National Non Domestic Rates
 - Overtime and Committee Allowances
 - Payroll
 - Risk Management and Insurance
 - Treasury Management

- (c) Limited Assurance:
 - Planning Fees (please see below)

- (d) No Assurance:
 - None

- (e) At Draft Report Stage:
 - Budgetary Control
 - Main Accounting and Financial ledger
 - Housing and Council Tax Benefits
 - Council Tax
 - Car Parking

6. The Planning Fees audit has resulted in a Limited Assurance as income reconciliations are not completed correctly. The income reconciliation is not sufficient as it is between the general ledger and the Development Control paying in spreadsheet. Effectively, this is checking fees received (recorded in the manual spreadsheet) to fees recorded in the general ledger. As a result, assurance cannot be given that effective controls are in place for planning fee income. Income should be reconciled by checking the amount due (for applications registered on M3) to the amounts received (general ledger).

Follow Up of Previous Limited Assurance Audits (Appendix 3)

7. Attached at Appendix 3 is a summary schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management. The table shows the situation as at 31 March.

Audit Plan 2011/12 (Appendix 4)

8. The status of the 2011/12 Audit Plan is set out at Appendix 4.

Performance Management

9. The Internal Audit Team has local performance indicator targets to meet in 2011/12, as set out below:

	Actual 2008/09 For year	Actual 2009/10 For year	Actual 2010/11 For year	Target 2011/12 For year	Actual 2011/12 Quarter 4	Outturn 2011/12
% Planned audits completed	95%	87%	82%	90%	82%	82%
% chargeable "fee" staff time	71%	69%	66%	72%	80%	71%
Average cost per audit day	£309	£300	£307	£300	£229	£213
% User satisfaction	85%	94%	86%	85%	97%	89%

10. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan.

(b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system.

(c) Average cost per audit day - the calculation is based on the costs for each quarter divided by the number of fee earning days extracted from the time recording system. As previously reported, a reassessment of what constitutes productive time, based upon information from the CIPFA benchmarking club and comparator information currently being shared between Uttlesford, Harlow, Broxbourne and EFDC has resulted in a new baseline for this indicator.

(d) % User satisfaction - a calculation is made each quarter based on returned client surveys for each audit giving a score on a five point scale 0 (poor) – 5 (excellent). The score is backed up by the client's comments on a range of issues related to the audit.

10. The figure for planned audits completed of 82% falls short of the quarter 4 target of 90% which has been affected by the long term sickness of a member of staff who left at the beginning of March.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Audit files and working papers.

Impact Assessments:

Risk Management

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts

Definition of Levels of Assurance

Level	Evaluation opinion	Testing opinion
Full assurance	There is a sound system of control designed to achieve the system objective.	The controls are being consistently applied.
Substantial assurance	While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system's objectives at risk.
Limited assurance	Weaknesses in the system of controls are such as to put the system's objectives at risk.	The level of non-compliance puts the system's objectives at risk.
No assurance	Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

**Summary of Audits completed during Quarter 4
January - March 2012**

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Cash Receipting and Income Control	Finance and ICT	<p>Full Assurance The systems and controls surrounding cash receipting and income control are operating effectively.</p>	No recommendations have been raised.
Bank Reconciliation	Finance and ICT	<p>Substantial Assurance The systems and controls surrounding the reconciliation of the Council's bank accounts are operating effectively.</p>	Bank accounts are regularly reconciled and the reconciliations are independently reviewed by a senior officer. However, due to staffing difficulties, there was a short period in the year during which the payments account had not been fully reconciled. A priority 3 recommendation has been raised in respect of this.
Creditors	Finance and ICT	<p>Substantial Assurance The Creditors function shows a sound and well regulated process with clear segregation of duties and a complete and well maintained administration and reporting process.</p>	Importance must be given in ensuring authorisation slips are fully completed and order numbers quoted unless exempt as per the policy. Audit have also recommended an alteration to the invoice authorisation slips, to include the printed name of the authorising signature, to allow for accurate and assured verification.
Commercial Property Management	Corporate Support Services	<p>Substantial Assurance The systems and controls surrounding the management of the Council's commercial property portfolio are operating effectively, and ensure that rent reviews and lease renewals are carried out in a timely manner and that rent invoices are accurate and rental income is effectively monitored.</p>	The section is in the process of procuring a replacement IT system for GVA, which will improve the day-to-day property management.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Licensing Enforcement	Environment and Street Scene	<p>Substantial Assurance There has been a significant improvement in regards the prioritising of licencing enforcement within the Directorate. Minimum service levels have been aged and working practices and performance monitoring have become established within the function.</p>	New coding, specific to the licencing enforcement function, has been set up and this will allow for an efficient monitoring and reporting process. There remains the need to draw up full licencing enforcement procedure documentation.
Housing Rents	Housing Services	<p>Substantial Assurance The systems for billing, collection and reconciliation of housing rents income contain sound controls with an adequate level of documentation in place.</p>	Rent arrears should be monitored in liaison with Legal Services to maximise the chance of recovery and data quality could be improved to minimise the risk of errors.
National Non Domestic Rates	Finance & ICT	<p>Substantial Assurance The section has well established procedures for ensuring that the NNDR database is complete and accurate and the liability is correct. Income is accurately recorded and regularly reconciled, and effective recovery and enforcement action ensures that income is maximised.</p>	It is recommended that empty properties should be visited as soon as possible after notification of the empty status.
Overtime and Committee Allowances	Corporate Support Services	<p>Substantial Assurance The systems and controls for overtime and committee allowances are operating satisfactorily.</p>	Officers need to be reminded to fully complete claim forms and submit them in a timely manner. Officers also need to be reminded that they will need to provide evidence of meetings attended when submitting a claim for Committee Allowance, especially in the case of unofficial meetings.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Payroll	Corporate Support Services	<p>Substantial Assurance This audit provides substantial assurance in the systems reviewed. However, audit findings suggest there is a need for Directors to remind Officers of the importance of authorising amendments to the establishment correctly.</p>	<p>Recommendations have been made to ensure controls surrounding the payroll system are consistently applied by all Chief Officers. This mainly relates to the correct authorisation of new employees and those leaving the Council's employment. This is a corporate issue which affects the payroll function and as a result of the audit, Directors will be reminded of the correct procedures.</p>
Risk Management and Insurance	Finance & ICT	<p>Substantial Assurance Risk management is championed at both directorate level and at a corporate level and the process is proactive in identifying risk and is efficient in ensuring the risk register remains current. Insurance policies are monitored and claims correctly processed.</p>	<p>A staff survey identified that risk management needs to be more effectively filtered down within the Authority to ensure that all employees understand risk and it's implications.</p>
Treasury Management	Finance & ICT	<p>Substantial Assurance The Treasury Management Process is well structured, transactions are accurate, well researched and the verification controls are stringent. Investment decisions must be signed off and approval verified, as a key stage of the process.</p>	<p>Recommendations have been made to ensure monitoring of timeliness of entries to the general ledger and ensuring the authorising signatures are included on all relevant documentation have been raised with management to ensure best practice and policy is adhered to.</p>
Planning Fees	Planning and Economic Development	<p>Limited Assurance Some progress has been made as Development Control recognise the importance of performing monthly reconciliations and priority has been given to address the agreed actions from the previous audit.</p>	<p>A partial reconciliation has been developed but has yet to be concluded and efforts have been made to produce reporting data from the Planning system to enable a full reconciliation to the general ledger.</p>

INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS 2011/12 – STATUS AS AT March 2012 **Appendix 2**

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Housing Repairs Service</p>	<p>OHMS System There are a number of jobs on OHMS (a total of 1680 as at 28/9/11) raised in 2010/11 which are still recorded as 'allocated' rather than 'invoiced'. Some of these are completed jobs which haven't yet been updated with the job details due to a lack of resources. The costs relating to these jobs have not been extracted as part of the monthly jobs posted to the general ledger.</p> <p>It should be ensured that, where relevant, completed jobs are closed down as 'invoiced' on OHMS to make sure that all relevant costs are posted to the general ledger.</p> <p>The status of the remaining jobs on OHMS should be determined and the system amended as necessary.</p>	<p>Customer Repairs Manager</p>	<p>March 2012</p>	<p>Officers have been working with Northgate to give us the ability to cancel all of these old jobs, to give us a clean start on MCM.</p> <p>Cancelling them off 1 by 1 was a non-starter due to the time it would take, so Northgate have been asked to provide a batch process to allow this to be done quickly. Northgate have now provided this facility and all old jobs dating back before Jan 12 will now be removed from the system.</p> <p>The concerns we had was the effect it may have had on KPI's and budgets if the jobs were closed. The way Northgate have opened up the batch process means they will be cancelled and will not affect the KPIs or budgets.</p>	<p>In progress</p>	

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Grounds Maintenance	Inventories The inventory for equipment, tools and machinery will be reviewed and signed as completed on an annual basis. The office inventory will be revised to include ICT equipment.	General Manager, Grounds Maintenance	March 2011	I can confirm that all Priority 1 recommendations as detailed in your e-mailed list were completed within the agreed time scales.	Actioned	To be reviewed.
Grounds Maintenance	Agency Staff Quotations will be recorded for the use of agency staff in accordance with the thresholds in Contract Standing Orders. The General Manager has agreed to ensure quotations are noted on the day they are obtained to evidence value for money.	General Manager, Grounds Maintenance	October 2010	As above.	Actioned	To be reviewed.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Planning Fees	<p>Income reconciliation Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011. Reconciliations should be printed and signed as evidence of completion. Details of variances investigated should be recorded. Advice will be required from Finance & ICT regarding the information required from M3 and the general ledger.</p>	Assistant Director (Development)	April 2011	<p>Training took place in 2010.</p> <p>Director reported to Audit and Governance Committee 14th February 2011</p>	In Progress	<p>Some progress has been made as Development Control recognise the importance of performing monthly reconciliations and priority has been given to address the agreed actions from the previous audit. A partial reconciliation has been developed but has yet to be concluded and efforts have been made to produce reporting data from the Planning system to enable a full reconciliation to the general ledger.</p>

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Planning Fees</p>	<p>Refunds Management should consider the use of a checklist to be used by Development Control Administration section to ensure that for each application the same data is recorded on M3 and/or the paying in spreadsheet. A report of refund transactions (DC120 9211) should be used to check that refunds are recorded correctly. It is recommended that the notes facility on M3 is updated with details of refunds. Officers responsible for authorising the refund should be reminded they are signing to confirm the refund is due.</p>	<p>Assistant Director (Development Control).</p>	<p>31st March 2012</p>	<p>The Expenditure Voucher has been updated to include a reference reminder to update the Note section of M3 and to enter any refund on the paying in spreadsheet.</p> <p>The report of refund transactions will be produced when staff training and ICT support has been carried out.</p> <p>The Notes section of M3 is being completed with an explanation of why a refund is required, or in some cases, why a planning application does not require the payment of a fee.</p> <p>The planning application case sheet (PW1Form) fee section is now being signed and checked by planning officers stating, where relevant, why a refund is required or the paid fee is incorrect, before the application is returned to the administration registering officers</p>	<p>In Progress</p>	<p>To be reviewed</p>

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Corporate Procurement	<p>Contract Standing Orders Officers in the Council should be reminded of their responsibility to comply with the Council's CSOs, in particular, the publication of works and the subsequent receipt of sufficient quotations/tenders.</p> <p>Where officers are unsure of the Council's requirements, they should liaise with officers in Procurement and seek appropriate advice on the matter before raising an order with a supplier.</p>	Officer working group consisting of Assistant Director of Housing, Senior Finance Officer: Procurement & Administration and Chief Internal Auditor.	Ongoing.	Work on promoting compliance continues through the Procurement Steering Group and the Marketplace User Group. In addition to the existing finance training a specific course has been developed on procurement and this has been targeted at key spending officers. Reminders have also been given of the need for compliance at both Management Board and Extended Management Board.	In Progress	The Procurement Guide which is currently being market tested will remind all staff involved in procurement of the requirements of CSO's and will guide staff through the stages they must follow based on the value of the expenditure. The guide reminds staff to liaise with the Senior Finance Officer: Procurement & Administration for appropriate advice at the beginning of the procurement process.
Housing and Council Tax Benefits	<p>Accuracy checks Ensure 5% checks completed timely and have these checks signed off, by a senior manager.</p>	Assistant Director (Benefits)	October 2011	Team Leaders have been told of the importance of regular accuracy checking and have been requested to complete the checking spreadsheet	Actioned	Audit in progress
Waste Management	<p>Procurement The requirements for the printing contract should be discussed with the Senior Procurement Officer to ensure that the correct procedures are followed.</p>	Waste & Recycling Manager	Ongoing	Agreed	In Progress	To be reviewed

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Bed & Breakfast Contracts	Family Bookings Quotes for the nightly rates relating to family groups not covered by the contracts should be received in writing. Given the nature of the service, confirmation of telephone quotes could be confirmed by e-mail or fax, and should be retained.	Housing Options Manager	Agreed	From 1 st September 2011	In Progress	To be reviewed
Management of Sickness Absence	Evaluation Meetings Managers should be reminded of the importance of holding evaluation meetings once an employee has reached the Council's sickness absence trigger levels.	Directors and Assistant Director (Human Resources)	Agreed	Ongoing	In Progress	To be reviewed

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Management of Sickness Absence	Key Performance Indicators The sickness absence report used to calculate KPI 10 should be adjusted to include any staff who have left the Authority.	Assistant Director (Human Resources)	March 2012	The Assistant Director (Human Resources) has stated that in the absence of the Operations Manager (vacant post), the calculation for Q4 2010/2011 and Q1 for 2011/2012 was not checked. The calculations for performance indicators completed in Human Resources will be checked in future, and the summary control form will be signed to evidence that the calculation has been completed, independently checked and signed off by the Director.	In Progress	To be reviewed
Licensing Administration	Reconciliation Reconciliation between M3 and the cash receipting system not up to date. Reconciliation to be completed on a monthly basis by the end of the month following the month being reconciled.	Assistant Director (Legal)	April 2012	Agreed	In Progress	To be reviewed

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Creditors	<p>Authorised Signatories Chase up Directorates as initially required in 2009. This has been highlighted in several audits previously and now requires a full update.</p> <p>NB. Chief Internal Auditor to raise this issue at Extended Management Board on 28/03/2012</p>	Director Finance & ICT	30 th April 2012	Agreed by extended management board.	In progress	To be reviewed
Creditors	<p>Marketplace Orders Formal instruction to be circulated to remind officers of the requirement to ensure all commitments of expenditure are placed on Marketplace unless on exempt list.</p>	Director Finance & ICT	May 2012	Agreed	In progress	To be reviewed
Commercial Property Management	<p>Data Validation Between Systems Valuers should check the details on GVA on an annual basis to ensure they are correct.</p>	Chief Estates Officer	31 st March 2013	Agreed. Although implementation of a new system should resolve this issue.	In progress	To be reviewed
Housing Rents	<p>Arrears Processing Management should note the consequence of errors and loss of data regarding rent arrears documentation when passed from Housing to Legal could result in an increase in arrears and a loss of reputation. Documentation referred to Court should be evidenced as checked in Legal Services.</p>	Housing Managers and Senior Lawyer.	1 st July 2012	Agreed	In progress	To be reviewed

Follow up of Limited Assurance Audits as at 31st March 2012

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Commercial Property	Corp. Support	Jan 2012	P1. 1 P2. 1	P1. 1	Q1 2011/12	The section is in the process of procuring a replacement IT system for GVA, which will improve the day-to-day property management.
Building Maintenance Depot Stocktake	Housing	June 2011	P1. 1	P1.1	Q3 2012/13	Currently subject to full tender exercise as part of major review by Assistant Head of Housing and insourced management.
Grounds Maintenance	Environment/ Street Scene	Sept2010	P1. 3 P2. 2		Q2 2012/13	Retention of contract documentation, annual review of inventories and retention of quotations.
Planning Fees	Planning and Economic development	March 2012	P1. 2 P2. 1	P1. 1	Q3 2012/13	A partial reconciliation has been developed but has yet to be concluded and efforts have been made to produce reporting data from the Planning system to enable a full reconciliation to the general ledger.

AUDIT PLAN 2011/12

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	PKF
Sundry Debtors	system/follow up	20	Completed	PKF
Creditors	system/follow up	20	Completed	PKF
Treasury Management	system/follow up	15	Completed	PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10	In Progress	PKF
Risk Management and Insurance	system/follow up	15	Completed	PKF
Main Accounting and Financial Ledger	system/follow up	15	In Progress	PKF
Housing Benefits	system/follow up	25	In Progress	PKF
Council Tax	system/follow up	25	In Progress	PKF/R27/AC
National Non Domestic Rates	system/follow up	15	Completed	PKF/R27
Cash receipting and Income control	system/follow up	15	Completed	PKF
Provision for 'top up' testing	systems	15	Completed	PKF
Cash Office spot checks	verification	5	Rolled over	PKF
ICT				
Environmental controls/backup procedures	IT	10	Rolled over	PKF
Data and Network Security	IT	20	Completed	PKF
Disaster recovery/business continuity	IT	10	Rolled over	PKF/R8
TOTAL		250		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	follow up	5	Completed	R27
Building Control	system	20	Rolled over	R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	Completed	R20
Public Health / Pest Control	system	15	Completed	R27
Car Parking	system	20	In Progress	R27
North Weald airfield	establishment	15	Completed	R27
Leisure contract	contract	15	Completed	R20
TOTAL		85		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10	Rolled over	R
Electoral services – data quality		15	Deleted	R
TOTAL		25		
Audit area	Audit type	Days	Completed	Risk

		allocated		Identifier
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25	Completed	PKF/R27
Housing Lettings	follow up	5	Rolled over	AC
Depot	system/follow up	15	Completed	
Norway House	Follow Up	15	Completed	
Bed and breakfast contract	contract	5	Completed	
Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		70		
PARTNERSHIPS AND VOLUNTARY SECTOR				
Local Area Agreements	system	15	Deleted	R22
TOTAL		15		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25	Completed	PKF
Recruitment and Selection	Follow up	5	Rolled over	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10	Completed	R
Car Mileage claims	verification	10	Completed	R
Health and Safety Policy	system	5	Deleted	R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20	Completed	R9
Licensing	system	15	Completed	R27
Licensing Inforcement	Follow up	0	Completed	R27
Asset Management system	Follow up	5	Rolled over	R18
Non-HRA Repairs	verification	5	Rolled over	R2
Fleet Operations income	system	5	Rolled over	R27
Legal				
TOTAL		110		
Audit area	Audit type	Days allocated	Completed	Risk Identifier
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R

CONTRACTS				
Contract Compliance	System/follow up	15	Rolled over	R20
CORPORATE				
Corporate Procurement	system/follow up	15	Rolled over	AC/R2
Gifts and Hospitality (Officers)	system/follow up	10	Completed	R
Gifts and Hospitality (Members)	system/follow up	10	Completed	R
Data Protection Act	system	5	Rolled over	R18
Follow up of Priority 1 Audit recommendations	follow up	10	Completed	R23
CORPORATE MEETINGS				
Governance Statement	management review	5	Completed	AC/PKF
FRAUD AND CORRUPTION				
National Fraud Initiative (NFI)		15	In Progress	R23
TOTAL		110		
TOTAL DAYS ALLOCATED		690		
Contingency/Spot checks/Minor investigations		40		R23
Corporate/Service Advice		45		
TOTAL		775		

Risk Identifier

Key

AC

PKF

R no.

R

Audit Commission

External Audit

Risk No. in Corporate Register

Reputation of

Council