

**AUDIT COMMITTEE  
26 JUNE 2014**

**REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)**

**A.4 AUDIT COMMITTEE – TABLE OF OUTSTANDING ISSUES**

(Report prepared by Richard Barrett)

**PART 1 – KEY INFORMATION**

**PURPOSE OF THE REPORT**

To present to the Committee the progress against outstanding actions identified by the Committee.

**EXECUTIVE SUMMARY**

- The Table of Outstanding Issues has been reviewed and updated since it was last considered by the Committee at its 20 March 2014 meeting.
- To date there are no significant issues to bring to the attention of the Committee, with updates provided against individual items set out in **Appendix A** or elsewhere on the agenda.
- Additional updates are also provided on specific areas of work that have been identified by the Committee for review.

**RECOMMENDATION(S)**

**That the Committee reviews and notes the progress against the outstanding issues.**

**PART 2 – IMPLICATIONS OF THE DECISION**

**DELIVERING PRIORITIES**

The existence of sound governance, internal control and financial management practices and procedures are essential to the delivery of Corporate priorities supported by effective management and forward planning within this overall framework.

**FINANCE, OTHER RESOURCES AND RISK**

**Finance and other resources**

There are no significant financial implications associated with monitoring and implementation of agreed actions or responses. If additional resources are required to deliver an agreed action then appropriate steps will be taken including any necessary reporting requirements.

**Risk**

The Table of Outstanding Issues is in itself a response to potential risk exposure with further activity highlighted to address matters raised by the Audit Committee.

**LEGAL**

There are no direct legal implications associated with this report.

## OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

This report does not have a direct impact although such issues could feature in future recommendations and actions. Any actions that may have an impact will be considered and appropriate steps taken to address any issues that may arise.

## PART 3 – SUPPORTING INFORMATION

### TABLE OF OUTSTANDING ISSUES

A Table of Outstanding Issues is maintained and reported to each meeting of the Committee. This approach enables the Committee to effectively monitor progress against issues and items that form part of its governance responsibilities.

An updated Table of Outstanding Issues is set out in **Appendix A**, along with further information set out in **Appendices B** and **C** that respond to specific issues previously raised by the Committee.

Previously the Committee have been advised of the progress against actions identified within the 2012/13 Annual Governance Statement within this report. The latest position on these actions is set out within the 2013/14 Annual Governance Statement that appears elsewhere on the agenda. Subject to the agreement of the 2013/14 Annual Governance Statement, any outstanding, revised or new actions will be included in future Table of Outstanding Issues reports to ensure members are kept up to date with progress.

#### **Update Against Issues Raised**

Any actions identified by the Committee at its last meeting have now been included where appropriate.

Updates against items either appear as separate items elsewhere on the agenda or set out within the Appendices, with work scheduled or remaining in progress against all items.

#### **Other Matters for Consideration**

##### **Outcomes from Housing Rents Audit**

At its meeting on 20 March 2014, the Committee considered the regular report on Internal Audit which included the outcomes from the recent audit of housing rents. As this received a limited assurance outcome, the Committee asked the service to not only attend the next meeting of the Committee but to provide some additional details around the issues identified. **Appendix B** therefore provides a response against each of the points raised.

##### **Benefit Fraud Review**

Following an External Auditor led training session on 'Protecting the Public Purse' attended by members of the Committee on 12 May 2014, members asked why the total value of housing benefit fraud cases investigated by TDC were higher than those being experienced by other Authorities. The numbers quoted were as follows:

- TDC – 74 cases valued at £323,532 (average value per case £4,372)
- District Council Average – 140 cases valued at £261,802 (average value per case £1,870)

Assurance was sort on the whether Council was detecting later than other authorities. A review has now been carried out and there is no evidence to suggest that this Council is detecting fraud any later than other authorities.

The review undertaken involved taking a sample of 20% of the 74 cases identified. This sample concentrates on the higher value cases with detailed analysis set out in **Appendix C**.

An explanation of the findings from the review are as follows:

- The majority of the claims investigated are notified to the Council through the National Fraud Initiative provided by the Audit Commission or the Housing Benefit Data Matching Service provided by DWP. Therefore the period that fraud has been committed may already be fairly significant from when the Council is notified as the Council has no control of this part of the process. It is also important to note that both the Audit Commission and DWP request a response against each potential claim they notify the Council of, which in itself provides a good control measure in terms of ensuring that the Council reviews each and every potential fraud case.
- Information obtained during an investigation comes from various outside agencies. TDC has no control over these timescales and delays of up to 3 months can be experienced for receipt of each separate piece of information. Once sufficient evidence is received from the relevant agency(s) a decision is then made regarding appropriate action. It is important to note that the case load of officers can involve between 50 to 60 cases at any one time and at various stages of investigation.
- Each investigation can involve numerous interviews and correspondence with the claimant including interviews under caution.
- The average value of each case was just over **£12,000**.
- In many cases the end result of the investigation was a successful prosecution.
- The period of the fraud is referred to as the period of overpayment and as you can see within **Appendix C** this is on average **5.57years** for the cases reviewed. The start date of any period of overpayment can be a significant period of time before the potential fraud case was originally identified and brought to the attention of the Council, with one case being backdated by 12 years. This Council takes the review that where there is sufficient evidence to identify the exact period of any overpayment then it will be backdated to that date. Although there is no hard evidence available, it is acknowledged that some authorities take an alternative view of only backdating for a limited period such as the start of the financial year in which the case was identified. It is not felt that this provides a big enough deterrent or demonstrates adequate stewardship of public money.

In respect of why this Council may have a higher overpayment value compared with other authorities, the bullet points above address this issue. There is no evidence of any delay in existing processes or the Council not detecting fraud earlier than any other Local Authority, as most of the cases of fraud brought to the Council's attention come from the same source e.g. National Fraud Initiative or Housing Benefit Data Matching Service. As previously mentioned the relevant agency monitors how the Council has dealt with a claim with no significant issues being identified by either agency to date.

### **Insurance Claims Review**

As part of the training session undertaken by members on the 12 May 2014 as previously mentioned, the Council's insurers provided members with information on both risk management and claims experiences in the context of the overall responsibilities of the Committee.

It was identified that the Committee wished to take this matter forward with a focus on how they promote good governance and their role in providing assurance on the Council's activities that could affect the Council's claims history and therefore the cost of future premiums. It was decided that the required level of information and the role of the Committee be reviewed and officers in consultation with the Chairman will take this forward over the next few months.

**The Local Audit and Accountability Act** – This Act came into force from the start of this financial year. After an early review of the Act, it primarily seeks to put in place a framework in which Local Authorities and other public bodies can appoint their own external auditors along with how they are regulated. The current auditors, Ernst and Young, were appointed by the Audit Commission for a period of 5 years starting from 2012/13. Therefore the requirements of the act will become more relevant as we approach the end of this term, although subject to the potential extension of the current arrangements.

There are other minor changes set out within the act which to a large extent reaffirm existing requirements.

**Code of Corporate Governance** – Work in updating this document remains in progress. Given the current timing associated with the separate review of the Council's Constitution which forms the backcloth to the content of the Code of Corporate Governance, it would be practical to defer this item to enable any changes to the Constitution to be reflected in the revised code where necessary. It is important to note that the existing Code of Corporate Governance still remains 'live' and will remain so until a revised document is presented and approved by the Audit Committee.

### **BACKGROUND PAPERS FOR THE DECISION**

None

### **APPENDICES**

**Appendix A** – Table of Outstanding Issues (June 2014) – General.

**Appendix B** - Response to the outcomes from the recent Housing Rents audit.

**Appendix C** – Benefit Fraud Statistics / Analysis.

## AUDIT COMMITTEE - Table of Outstanding Issues (June 2014)

GENERAL					
Governance Area	Activity / Subject	Recommendation / Issue	Lead Service	Progress / Comments	Status - Target Date
<b>Audit Committee Effectiveness</b>	<b>Periodic review of the operation and effectiveness of the Audit Committee.</b>	<p>At its 26 September 2013 meeting the Committee considered a formal update against outstanding actions following the on-going monitoring of the Committee's effectiveness.</p> <p>The following two items remain in progress along with the wider request to review and determine future training opportunities for the Committee which could encompass all other members and officers:</p> <p>1) Committee's input into the External Audit Programme 2) The Committee periodically obtaining the views of External Audit on the work and effectiveness of the Committee.</p>	Finance and Procurement Manager	<p>In respect of item 1), the Local Audit and Accountability Act, which has recently come into force sets out arrangements for the appointment of auditors and monitoring of audits. Therefore the role of the Committee in relation to the performance of the external auditor and the input into work programmes will form part of the associated work when this Council appoints its own external auditors which will not be beyond 2017. However any actions that could be beneficial in the interim period remains under review.</p> <p>In respect of item 2) the practicality of adding this to the Audit Committee's work as a regular item is being progressed with an update planned for September.</p>	<b>On-going</b>
<b>General Governance</b>	<b>Outcomes from work of Internal Audit</b>	<p>After considering the Table of Outstanding Issues Report at its 27 June 2013 meeting, the Committee resolved that:</p> <p><i>An update on the Council's enforcement role in respect of Planning be brought before the Committee at its next meeting to be held on Thursday 26 September 2013.</i></p> <p>After considering the Regular Internal Audit Monitoring Report at its 27 June 2013 meeting along with the broader issues around S106 money the Audit Committee agreed that:</p> <p><i>The S106 audit report completed in the period be presented at the next meeting of the Committee as part of the Planning update.</i></p> <p><i>S106 Monies in respect of linking with opportunities with Essex County Council and making it readily available for all.</i></p>	Head of Planning Services	<p>A verbal update was provided directly at the Committee's meeting on 26 September 2013. This item remains as a 'live' item on the Table of Outstanding issues as further updates from the service will be requested in 2014.</p> <p>A representative from the service along with the PFH for Planning and Corporate Services have been invited to this meeting of the Committee to provide an update as requested by the Audit Committee at its 20 March 2014 meeting.</p>	<b>On-going</b>

<b>External Audit</b>	<b>Future Change</b>	At its meeting on 13 December 2012, the Audit Committee resolved:  <i>That the local procurement of external audit services along with any impact on Parish/Town Councils is added to the Table of Outstanding Issues for future consideration.</i>	Finance and Procurement Manager	Under current proposals, Local Authorities will be able to appoint their own external auditors from 2017 (subject to the potential extension of existing arrangements). Independence, quality and governance arrangements will form part of any procurement decision which will be undertaken within the necessary timescales to be in a position to confirm appointment when applicable.	<b>2016/17</b>
<b>Control Environment</b>	<b>Outcomes from work of Internal Audit</b>	<i>At its meeting on the 12 December 2013, the Committee raised concerns about cash handling processes within the Council and specifically identified car parking income as an area they would like to maintain a watching brief.</i>	Finance and Procurement Manager	This issue forms part of the work of Internal Audit in 2014/15 and outcomes will be presented to a future meeting of the Committee.  The Internal Audit Monitoring report set out elsewhere on the agenda provides the outcomes from recent Internal Work, with a representative from Parking Services to attend the September meeting of the Committee to provide further details / general update.	<b>Sep-14</b>
<b>General Governance</b>	<b>Key Projects / Priorities</b>	At its meeting on the 26 September 2013, the Committee received an update on Regeneration including the latest position against an outstanding recommendation from the Council's External Auditors.  In respect of the specific audit recommendation, it was felt that the matter had moved on following subsequent events such as the Economic Strategy and the fundamental service reviews. The focus has shifted to the strategic direction of regeneration and value for money / benefits it can bring. However it was felt useful to maintain regeneration as an item on the Table of Outstanding Issues and the Committee also requested that the Regeneration Manager attend a future meeting to update the Committee on the progress of the South East Local Enterprise Partnerships economic plan. The Chairman also requested a regular update be sent to the Audit Committee on any forthcoming projects.	Corporate Director (Public Experience)	Further updates will be presented to the Committee when requested / appropriate.	<b>On-going</b>

<b>General Governance</b>	<b>Property Disposals</b>	<p>At its meeting on 20 February 2014, the Committee reviewed the Council's Property Disposal Procedures and resolved to provide the following comments to Cabinet:</p> <ol style="list-style-type: none"> <li>1. The Committee support a suggestion that the Property Dealing Policy allow for a measure of confidentiality to apply until a negotiation to purchase land or property was completed;</li> <li>2. Any valuation or disposal reports received by the Council be reported confidentially to Members and be signed off by the Portfolio Holder or Leader;</li> <li>3. That for substantial disposals (over £50,000 was suggested), at least two valuations be sought as part of the process and that consideration should also be given to a similar report on reallocations of use; and</li> <li>4. The Committee accept the proposal put forward by the Assets Manager for Levels of Delegation.</li> </ol>	Corporate Director (Corporate Services)	Following a review by both Cabinet and Full Council as part of the revisions to the Council's constitution, all 4 elements of the Committee's recommendation were agreed.	<b>Completed</b>
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### RECOMMENDATIONS FROM EXTERNAL AUDIT

Governance Area	Activity / Subject	Recommendation / Issue	Lead Service	Progress / Comments	Status - Target Date
<b>External Audit Review</b>	<b>Claims and Returns</b>	<p>At its meeting on 20 March 2014, the Committee considered a report from the External Auditor relating the certification of claims and returns for 2012/13. The External Auditor identified the following recommendation:</p> <p><b>Housing and Council Tax Benefits Subsidy claim (Medium Priority):</b> Ensure that appropriate training is developed and delivered to staff to ensure that:</p> <p>All staff understand how income should be recorded within Northgate to prevent incorrect award of benefit.</p> <p>The importance of correct dates at the time of data entry.</p>	Corporate Director (Life Opportunities)	Appropriate and on-going training will be delivered during the year.	<b>On-going</b>

## AUDIT COMMITTEE - Table of Outstanding Issues (June 2014)

### Responses to the outcomes from the recent internal audit of Housing Rents

Responses to the outcomes from the recent internal audit of Housing Rents	
Recommendation / Issue	Progress / Comments
<p><b>Easy Mobile System</b> It was understood that the recently introduced mobile rent collection system had severe limitations in that the hand held device will not operate in certain locations (ostensibly due to a poor 3G signal). This means that the previous rent collection process (using Kalamazoo stationery) has to be employed in tandem with the new system.</p>	<p>It is confirmed that the hand held mobile payment devices due to their failure rate have been withdrawn from use at no cost to the Council.</p>
<p><b>Reconciliation of cash received</b> Recent reconciliations of cash received (as recorded on Northgate) to the Agresso general ledger were not made available to audit. It was understood that this was because there were unresolved differences in this weekly reconciliation.</p>	<p>When balancing the reconciliation of rent against the cash &amp; deposit book and the finance system Agresso it is common for items not to balance within the same working week, this can cause the three systems to be out of sync. with each other for certain periods, i.e. when supporting people is awarded, or when refunds or other financial adjustments are made on the rent accounts.</p>
<p><b>Authorisation of adjustments</b> It was noted that the online authorisation of adjustments process was not being used.</p>	<p>The service does not use the on line authorisation facility as even though the adjustments are calculated by the original user they would not show until authorised by management, this could reflect an improper balance should management not be able to authorise the same week as the adjustment. However, it has not been disregarded but a more flexible solution sought to be in keeping with current working practices.</p>
<p><b>Rent Collector's daily return – extra receipts</b> It was noted that the rent collector's daily returns sometimes included non-rent cash or cheque payments (e.g. payments from the sheltered homes for guest room rent and television licences, and garage rent). Receipts are not given by the rent collector for these payments and consequently there is a risk of misappropriation of cash.</p>	<p>Previously the service have never provided internal receipts to their own sites for taking money they have already receipted the customer for, however during the audit it was agreed for the collector to issue a sundry receipt for any monies taken from an internal officer i.e. such as the Sheltered Scheme Managers for guest room accommodation.</p>



<p><b>Suspense account</b>          It was understood that review of all outstanding suspense account entries is not regularly undertaken.           It was also noted that the clearance of entries from suspense was not being monitored by management.</p>	<p>The suspense account was monitored to a certain standard, to this when a payment was placed to suspense and was on the daily cash report the relevant manager would contact the Payments Officer asking if they could look at the payment and locate the account where it should be paid onto. Should this fail the payments are left on suspense until a query is received claiming the money. The suspense account is viewed daily for any items that show on the cash reports.</p>
<p><b>Monitoring of current and former tenant arrears</b>          It was noted that reports of current and former tenant arrears were not being produced and used to regularly monitor the debt position. There were also no individual targets for the arrears officers.</p>	<p>Reports for current tenant arrears are distributed to each arrears officer and the rents co-ordinator on a monthly basis via a business objects report extracted into excel, this is on top of the on-line fortnightly monitoring of any accounts raised through the Housing Northgate escalation. The former tenant accounts are now dealt with by 2 officers so are monitored on a more frequent basis - at least once a month.</p>
<p><b>Former tenants debt write offs</b>          It was noted that there had been no former tenant write offs in the testing period. Testing had however identified a number of debts which should have been considered for write off.</p>	<p>Former tenants are being looked at more frequently this will assist in a more rigorous check and avoid any write offs from being missed.</p>
<p><b>Tenant statements</b>          It was noted that regular statements were not being sent to tenants. In the absence of the old rent cards, it is recommended that tenants are regularly updated with their current arrears balance, together with their transaction data.</p>	<p>At the start of the financial year an exercise was undertaken informing tenants of any accrued balances brought forward along with a breakdown of their new year net rent, this was completed with a combined project with our internal I T team, and rent statements are going to be produced quarterly.</p>
<p><b>Reconciliation of the number of void properties</b>          Testing identified that the weekly reconciliation of void properties (between report HRA139 and HEM050) was ineffective as a difference between the two reports for week 28 had not been identified by management. However it is questionable whether the reconciliation is necessary as both reports come from the same housing database. The updating of voids data is all undertaken by Housing Rents staff.</p>	<p>The property voids report HEM 050 and rents void report HRA139, are run each week and are reconciled. There was one instance where they didn't match was due to the property void report being run on a Monday and the rents void report being run later in the week after the void and movement's had been adjusted on the rents system hence the one anomaly.</p>
<p><b>Former tenants arrears letters – de minimus</b>          It was noted that a number of former tenant arrears chase letters were sent out in order to try to recover small amounts. It is questionable whether this is a viable or efficient approach for small sums, when write off may be a more appropriate course of action.</p>	<p>On small former tenant debts the service reviews whether to write off any debt under £10, however on current tenants accounts the amount will remain on their account and the quarterly statements will show the money owed.</p>

**Document image processing**

It was noted that correspondence with clients was filed in paper files. It is recommended that, for reasons of efficiency, consideration is given to scanning this correspondence into the document imaging system that is associated with the Northgate system.

This will be reviewed with the possibility of viewing the documents on screen rather than print a hard copy of the report; however, this will involve toggling between screens, which will become laborious and could lead to errors.

## AUDIT COMMITTEE - Table of Outstanding Issues (June 2014)

### Housing Benefit Fraud Statistics / Analysis

<b>Outcomes from a review of a sample of 15 high value cases (20%) out of the 74 identified in External Audit Findings</b>					
Date TDC notified of potential Fraud	How Identified	Date Evidence Received	Overpayment Identified	Period of Overpayment	Sanction Taken
02/07/10	Revenues and Benefits Service	21/06/11	£23,518	01/04/08 to 27/05/12	Prosecution
03/05/11	National Fraud Initiative	20/10/11	£18,012	13/02/06 to 06/11/11	Prosecution
15/03/10	Housing Benefits Data Matching	25/01/11	£12,562	05/07/04 to 22/05/11	Administrative Penalty
10/05/11	Public	27/07/12	£12,004	05/07/10 to 07/10/12	None
10/03/11	Housing Benefits Data Matching	03/04/12	£22,862	05/09/05 to 15/07/12	Prosecution
14/03/11	Housing Benefits Data Matching	16/05/12	£13,117	01/05/06 to 03/08/12	Prosecution
15/03/10	Housing Benefits Data Matching	26/01/11	£9,042	14/12/09 to 31/03/11	Prosecution
27/10/09	Housing Benefits Data Matching	27/01/11	£12,551	06/01/03 to 14/02/12	Prosecution
14/06/12	Housing Benefits Data Matching	29/01/13	£5,016	15/11/04 to 17/02/13	Caution
28/04/12	National Fraud Initiative	29/10/12	£5,584	07/04/08 to 09/12/12	Administrative Penalty
10/08/11	National Fraud Initiative	23/05/12	£5,768	03/12/07 to 02/09/12	Prosecution
14/03/11	Housing Benefits Data Matching	22/11/12	£11,173	03/09/99 to 09/12/12	Prosecution
29/09/11	Housing Benefits Data Matching	28/09/12	£11,090	17/12/07 to 28/10/12	none
14/03/11	Housing Benefits Data Matching	16/02/12	£8,731	23/05/05 to 19/06/11	Administrative Penalty
14/03/11	Housing Benefits Data Matching	11/11/11	£12,022	08/05/06 to 29/01/12	Prosecution
<b>Averages</b>		<b>421 days from when TDC notified</b>	<b>£12,203</b>	<b>5.57 years</b>	