



City of Westminster

Audit and Performance Committee Report

Meeting:	Audit and Performance Committee
Date:	23 April 2013
Classification:	For General Release
Title:	Internal Audit & Counter Fraud Summary Monitoring Report – January to February 2013
Wards Affected:	All
Financial Summary:	Service Budget 2012/13 £983,155
Report of:	Chief Operating Officer

1. Executive Summary

Key outcomes from the Internal Audit & Counter Fraud work – January to February 2013:

- Fifty-eight percent of the audits completed in the period received a positive assurance opinion. Audit work completed in the year to date indicates that internal control systems were generally effective with seventy percent of the audits receiving a positive assurance opinion.
- The Council was found to be effective at implementing recommendations where problems were found. Where control improvements are required and compliance with agreed systems should be improved action plans are in place to remedy the weaknesses identified and these will be followed up until they are considered to be complete.
- Housing Benefit Fraud Investigations resulted in 4 prosecutions and 11 “Cautions” or “Administrative Penalties” being issued during the period which related to overpayments and fines totalling £121K.
- General fraud investigation work has resulted in 2 prosecutions in respect of parking offences.

2. Recommendation

That the Committee consider and comment on the internal audit and counter fraud work carried out during the period.

3. Background, including Policy Context

RSM Tenon is the Council's appointed internal auditors and counter fraud specialists. Detailed reports on the performance of the Internal Audit and Anti-Fraud contract and the outcomes of the work undertaken are presented monthly to the Audit Manager, Clientside. These can be made available to the Committee on request. The Audit & Performance Committee receives updates at each meeting on all RED RAG or AMBER RAG limited assurance audits issued in the period together with details of any significant fraud investigations.

A number of audits are being undertaken during the year in respect of services provided within RB Kensington & Chelsea (RBK&C), LB Hammersmith and Fulham (LBHF) and Westminster City Council (WCC) under the tri-borough working arrangements. These audits are undertaken by RSM Tenon, the external contractor to LBHF/RBK&C or the in-house internal auditors at RBK&C. Two tri-borough audits have been completed in the period which have resulted in limited assurance opinions. Details in respect of these audits are contained in paragraphs 5.4.1 and 5.4.2 below.

4. Opinion on the Control Framework

Our opinion is that at the time of preparing this report, the Council's internal control systems in the areas audited in the year to date were adequate. This is a positive opinion which means that the Council generally has effective internal control systems with 70% of audits receiving a positive assurance opinion. The implementation of "significant" and "fundamental" recommendations has been consistently effective.

In the above context we stress that:

- This opinion is based solely upon the areas reviewed and the progress made by the Council to action our recommendations;
- Assurance can never be absolute neither can our work be designed to identify or address all weaknesses that might exist;
- Responsibility for maintaining adequate and appropriate systems of internal control resides with council management, not internal audit;
- We have not placed reliance on other agencies' work in carrying out our audits.

5. Audit Outcomes in the Period

Since the last report to the Committee, the following audits were undertaken none of which identified any key areas of concern:

- Building Control System (Green RAG);
- Pensions Administration System (Green RAG);
- Residents Parking Permit System (Amber/Green RAG);
- Street Works Permit System (Green RAG);
- Community Build Scheme (Green RAG).

Three audits were completed with significant findings, which are summarised below:

5.1 Parking Identifier Badges System (Amber)

Parking Identifier Badges (PIBs) are issued to employees and sub-contractors that require the use of a vehicle to undertake their duties. By using a PIB the employee/contractor does not have to pay parking charges. Following a recent fraud investigation (see paragraph 6.3 below) where an unauthorised person was found to be using a PIB, Parking Services requested an internal audit of the processes in place for validating applications for and issuing PIBs to ensure that they were robust and the risk of misuse was minimalised.

The audit concluded that limited assurance could be given on the effectiveness of the system controls. A number of weaknesses were identified which are summarised below:

- The requirements contained in the PIB 'Conditions of Use' document were not consistently complied with resulting in incomplete applications, queries over authorisation and inaccurate recording of the application for/issue of PIBs on the parking system (ICPS);
- Exceptions to compliance with the 'Conditions of Use' document were known about but had not been formally recorded;
- PIBs were issued with expiry dates which were contrary to the requirements in the 'Conditions of Use' document;
- Expired PIBs or those no longer needed are not returned.

One fundamental, three significant and three best practice recommendations have been made to address the weaknesses identified. An action plan is in place which indicates that all fundamental and significant recommendations will be implemented by April 2013. A follow up review will be undertaken to ensure that this is the case.

5.2 Soho Parish School (Amber)

At the time of the audit, controls in most areas were in place and operating well. However, shortly after the audit visit, money went missing from the school safe whilst the Finance Officer was on leave. The theft has been reported to the Police and the lapse of security has been addressed by the Headteacher who has revised the procedure for receiving cash and or cheques and securing income. Compliance with the new procedure will be checked at a follow-up review.

5.3 Queen Elizabeth II School (Amber)

Queen Elizabeth II School has federated governance arrangements with College Park School. Although no fundamental weaknesses were identified, six significant recommendations have been made, to address the following weaknesses:

- The correct financial limits and delegated authorities were not included in the school's Scheme of Delegation;
- The school's register of interests was incomplete with nearly half of the governors' annual declarations of interest missing and no declarations of interest held for staff involved in the financial administration of the school;
- The cheque account did not reconcile to the financial records. The school were aware of the variance and reason for it but had not taken the appropriate action to rectify the discrepancy;
- The cheque account bank mandate was out of date and contained details of staff no longer at the school;
- Some personnel files were incomplete and others contained CRB disclosure information that should not be retained;
- Purchasing procedures were not consistently complied with and improvements were required to ensure that orders were appropriately authorised and an adequate segregation of duties established within the purchasing and payments process.

5.4 Tri-borough Audits Completed in the period

In addition, three audits have been completed in the period, which were undertaken on a tri-borough basis:

- Total Facilities Management – Procurement Competitive Dialogue Process which was undertaken by LBHF audit contractors and was given a substantial assurance opinion;
- Fostering Service which was undertaken by RBK&C auditors; and was given a limited assurance opinion; and
- Safeguarding Adults which was undertaken by LBHF audit contractors and was given a limited assurance opinion.

As these audits were not undertaken by RSM Tenon, they are reported to the Clientside Audit Manager and do not form part of RSM Tenon's overall assurance opinion.

The findings of the limited assurance tri-borough audits are summarised below:

5.4.1 Fostering Service – Tri-Borough Audit (Amber)

This audit was undertaken on the tri-borough fostering service that was formed in April 2012. The fostering and adoption service is fully integrated and provides a range of temporary and permanent placements with carers and adoptive families for children in any one of the three boroughs. The audit identified that clear service objectives have been established with guidance and procedures in place which are accessible to all staff. Appropriate arrangements were in place for carrying out background checks on carers and governance arrangements were considered to be appropriate. The reorganisation of the service had provided opportunities for efficiencies to be achieved, however, a number of weaknesses were identified that need to be addressed:

One of the key issues is that each of the councils are still using separate systems which has resulted in:

- Delays in setting up payments to carers;
- The frequency of payments to carers being inconsistent (two councils pay weekly and one pays fortnightly);
- The need to duplicate information on each of the council's payments systems;
- Carers looking after children from different boroughs receiving multiple separate payments generated by each council;
- Staff not being trained in all three council's systems;
- Care records being retained differently resulting in delays in locating and retrieving files.

A total of three fundamental and thirteen significant recommendations have been made to address the identified weaknesses which have been accepted by management. It was noted that a tri-borough project has been established to implement a single integrated care system which will address some of the issues. However, some changes may not be addressed until the implementation of the tri-borough managed services in 2014.

5.4.2 Safeguarding (Adults) Service – Tri-Borough Audit (Amber)

This audit reviewed the Safeguarding Adults process across the three councils. Adult social care teams and joint health and social care teams are responsible for receiving and processing safeguarding alerts and referrals from all sources. All London councils are required to comply with the 'Pan London Multi-Agency Policy and Procedures to Safeguard Adults from Abuse'. Therefore the procedures within each of the three councils are essentially the same although

each council currently uses different systems for documenting and managing safeguarding cases.

The audit identified different levels of assurance at each of the three councils. Substantial assurance was given to the systems operated at RBK&C where a sound system of control was in place with a good level of compliance and one significant recommendation was made. Satisfactory assurance was given to the systems operated at LBHF with three significant recommendations made. Limited assurance was given to the systems operated at Westminster Council with two fundamental, five significant and two best practice recommendations made.

The key weaknesses identified within the Westminster Council processes were:

- The lack of evidence on the central system of agreed interim and actual protection plans;
- The lack of clarity on the system of which cases were closed and the links with the decision to close the case as authorised by the Safeguarding Adults Manager;
- A lack of staff awareness of how to access the local Safeguarding Policies and Procedures;
- A lack of staff awareness on the impact of changes in the Pan London procedures on local arrangements;
- The use of out of date templates for documenting the safeguarding process which resulted in not all of the required information being recorded;
- Risk assessments were not being completed and documented through each stage of the safeguarding process.

The recommendations have been accepted and it is acknowledged that the implementation of the Frameworki system will address some of the weaknesses in the existing system.

5.5 Implementation of Audit Recommendations

Follow up audit work found that the implementation of recommendations was good with 97% of priority 1 and priority 2 recommendations implemented by their due date.

5.5.1 Pay by Phone Contract

As previously reported to the Committee, an audit was requested on the existing pay by phone contract to assess the strength of the arrangements prior to the re-let of the contract in 2013. The audit identified three key issues in respect of the existing contract:

- A lack of formal contractual agreement between the Council and the contractor to support some of the charges;
- Weaknesses in the governance arrangements over changes to the original contract between award and commencement;
- A lack of clarity in respect of the methodology for calculating call-centre costs which resulted in an overpayment to the contractor of £144K between 2008 & 2011, out of a contract spend of £7.2M over the same period.

The weaknesses were considered to have been addressed in the Council's new contract procedures. A follow up review has recently been completed which confirmed that the specific actions agreed in the original audit had been progressed appropriately. In addition to following up these recommendations, the review considered what action the Council had taken to ensure that similar weaknesses in the monitoring of payments made to contractors are not evident in other contracts. A sample of contracts for shared services was reviewed and in all cases it could be confirmed that they were monitored appropriately, charges were properly separated and there was no evidence to indicate that costs were incorrectly allocated. As a result of this follow up review, one recommendation has been made in respect of maintaining up-to-date details on the Council's Contracts Register, which is not specific to contracts within parking services. The Chief Procurement Officer has accepted the recommendation which is expected to be addressed when eSourcing is implemented during 2013.

5.5.2 Wilberforce Primary School – Salary Payment Approvals

A review was undertaken during 2011/12 at the request of the Interim Headteacher at Wilberforce School, which focussed on the approval and payment of:

- Staff re-gradings;
- Overtime; and
- Honorarium payments.

Four fundamental, four significant and one best practice recommendation were made which were accepted by the school's Interim Executive Board. A follow up review has now been completed and action has been taken to address all of the recommendations including:

- Improved control over all changes to the payroll and staffing of the school;
- Improved reporting on expenditure, including staffing costs and greater visibility on the reasons for additional costs;
- Improved monitoring of the effective use of staff that provide finance and administrative support.

The structure of the school's finance and support function is being reviewed to ensure that the expected duties are properly reflected in the job descriptions, with appropriate grades assigned to the posts and with salaries in line with approved pay scales. This process is still in progress and is expected to be completed during 2013 as part of the school's preparation for applying for Academy status.

6. Anti-Fraud Work Outcomes

6.1 Summary of Housing Benefit Fraud Investigations

The table below illustrates the sanctions achieved to date in the financial year 2012/13. From a total of 396 investigated cases there have been 77 sanctions to date. The investigations have identified £873K in overpaid Housing Benefit and fines of which approximately 15% has been recovered to date. The remaining amounts are subject to continuing recovery action. It has always been the case that recovery has been slow due to the constraints on the action that can be taken, although eventually the majority of the money will be recovered. Internal Audit continues to work with the responsible sections of the Council to improve the speed of recovery.

Year 2012/13 Sanction	No of Cases	Overpayments/ Fine	Recovered to Date	Recovery Rate – Feb 2013	Comparison Recovery Rate Previous Year (Feb 2012)
Prosecution	20	£717,273	£105,427	14.70%	41.43%
Official Cautions	18	£ 42,624	£ 5,895	13.83%	31.84%
Administrative Penalties (overpayments & fines)	39	£ 113,337	£22,983	20.28%	21.36%
Totals	77	£873,234	£134,305	15.38%	30.38%

Whilst the overpayment recovery rate appears to be very low, the following need to be taken into consideration as they have an impact on the figures reported above:

- 75% of the sanctions achieved in the year to date were obtained in the last five months (September 2012 to February 2013) and these equate to 70% of the total overpayment value. Therefore there has been insufficient time for effective overpayment recovery to be achieved;
- Three of the prosecution cases have resulted from DWP Organised Fraud investigations which concern multiple claims based on false identifies. It is highly unlikely that there will be any opportunity to make recoveries on

these debts. The value of overpayments on these three cases alone is just over £175K;

- In four of the 77 cases identified above, the overpayment figure is in excess of £70K (two cases are each in excess of £100K) and the average overpayment value is £36K whereas last year this was closer to an average of £30K per case.
- Eight of the prosecution cases involve POCA proceedings aimed at recovering the overpayment from restrained assets. It can take some time for POCA cases to go through the due process, however, they usually result in the majority if not all of the overpayment being recovered.

6.2 Since the last report to Committee in February, there have been four prosecutions for Housing Benefit fraud and seven Administrative Penalties and four Cautions have been issued. These resulted in overpayments and Administrative Penalties of £121K all of which is recoverable from the claimants.

The outcomes for the four prosecution cases were as follows:

- A benefit claimant from W10 was found guilty of eleven counts of benefit fraud relating to undeclared bank accounts. The overpayment in respect of these offences is in excess of £39K. The claimant was sentenced to a 12 week custodial sentence on the 10 April 2013 after continuing to deny that the bank accounts were his. The Council will seek to recover the full value of the overpayment, full costs (£18k) and inflation proofing (£16k) from the £95K held in restrained bank accounts;
- A benefit claimant from W2 pleaded guilty to twenty-eight offences including benefit fraud against numerous London boroughs, conspiracy, identity fraud and immigration offences. The DWP Organised Fraud Section, working with the UK Border Agency, were investigating a large scale immigration/identity case and it was established that a false identify had been used in support of a Housing Benefit claim with Westminster Council. It has been estimated that the claimant had received over £34K in Housing Benefit from Westminster Council between April 2000 and March 2008. The claimant was sentenced to a total of four years in prison in respect of all of the offences;
- A benefit claimant from W2 pleaded guilty to one offence of failing to report a change in circumstances which would affect his benefit claim. The Police were investigating the claimant for burglary and identified to the Council that the claimant had moved out the claim address. The claimant had continued to receive Housing Benefit paid directly into his bank account totalling £9K. The claimant was sentenced to a twelve week

Curfew/Tagging Order and a Compensation Order of £5K was granted by the court and the claimant ordered to pay the Council's costs;

- A benefit claimant from SW1 was found guilty of one count of making a false statement to obtain Housing Benefit. The claimant had received nearly £13K in Housing Benefit after failing to declare that she owned a property in Ireland. The claimant was sentenced to a ten week prison sentence suspended for one year and ordered to attend a sixteen day 'Structured Supervision for Women' course. The Council was awarded £2.5K costs to be repaid at £80 per month.

6.3 Summary of General Fraud Investigations

Since the last report to Committee, investigations have resulted one successful prosecution in respect of forged disabled parking badges, one successful prosecution in respect of the misuse of a Parking Identifier Board and the recovery of a Residents Parking Permit that was being used on a vehicle that exceeded the maximum height to be eligible for a Permit. The details of the two prosecutions are summarised below:

- The Council successfully prosecuted an individual who had altered the expiry date of a disabled parking badge. The individual was using a white Westminster Council disabled parking badge which had expired in April 2011, the expiry date had been altered to read April 2014. The badge was in a vehicle which also displayed a blue disabled parking badge that had been issued by the Royal Borough of Kensington and Chelsea (RBK&C). Enquiries with RBK&C established that the individual had moved out of their area in 2009 and the blue badge should have been returned. A joint exercise was undertaken with the Metropolitan Police Safer Neighbourhood Team which resulted in the individual's arrest in December 2011. The Westminster white disabled parking badge and the RBK&C blue disabled parking badge were recovered and both were found to have altered expiry dates. The individual was charged with four offences under Section 115 of the Road Traffic Regulations Act 1984 and was found guilty of the offences at a trial in February 2013. The judge decided that due to the individual's ill health, he should not be given a custodial sentence or unpaid community work. As a result he was sentenced to a conditional discharge of twelve months and ordered to pay costs of £1K.
- In July 2012 an investigation commenced into the misuse of a Parking Identifier Board (PIB). A PIB is used by Council staff and contractors to obtain parking dispensations when attending an emergency or when on essential Council business. The misuse was referred to the Council by the Metropolitan Police after a senior Police Officer had been observed using a PIB to park close to West End Police station. The investigation identified that the Police Officer had obtained the PIB from her daughter who works

for the Council. An investigation concluded that there was no evidence that the Council employee had any knowledge that her mother was misusing the PIB however, it was recommended that the system for controlling PIBs should be reviewed (see paragraph 5.1 above). A joint working exercise with the Metropolitan Police Professional Standards Unit resulted in the Police Officer being arrested. The Police Officer pleaded guilty to offences connected with the misuse of the PIB and was sentenced to four weeks in custody, suspended for twelve months, one hundred hours of community work and ordered to pay CPS costs of £80, Council costs of £1,500 and a victim surcharge of £85.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

Chris Harris on 020 7641 2820,

Email: chris1.harris@rsmtenon.com.

Address: Internal Audit, 33 Tachbrook Street, London, SW1V 2JR. Fax: 020 7641 6039

BACKGROUND PAPERS

Internal Audit Reports;

Monthly monitoring reports