



Audit and Performance Committee Report

Meeting:	Audit and Performance Committee
Date:	26 November 2014
Classification:	For General Release
Title:	Internal Audit & Counter Fraud 2014/15 – Progress Report
Wards Affected:	All
Financial Summary:	Appx Value of audited areas: £15.3m
Report of:	Steven Mair, City Treasurer (Section 151 Officer)
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1. Executive Summary

Key outcomes from the Internal Audit & Counter Fraud work in the year to date:

- Audit work carried out by the Council's Internal Audit & Counter Fraud contractor, Baker Tilly Risk Advisory Services LLP (Baker Tilly), in the financial year 2014/15 to date found that in the areas audited, internal control systems were generally effective with 77% of the audits undertaken receiving a positive assurance opinion. There are a few areas where control improvements are required and compliance with agreed systems should be improved. In each case, action plans are in place to remedy the weaknesses identified and these will be followed up until they are considered to be complete.
- In addition to the audit work undertaken by Baker Tilly, one audit has been completed in the period in respect of services provided within RB Kensington & Chelsea (RBK&C), LB Hammersmith and Fulham (LBHF) and Westminster City Council (WCC). This was in respect of a Tri-Borough Service and was undertaken by the in-house internal auditors at RBK&C. A positive assurance opinion was given in this audit.

- In the period since the last report to the Committee, Housing Benefit investigations have resulted in one prosecution which related to an overpayment of £21k.
- General fraud investigation work in the period has resulted in two housing properties being recovered and one property succession being prevented.

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

Baker Tilly Risk Advisory Services LLP (Baker Tilly) is the Council's appointed internal audit and counter fraud specialist. Detailed reports on the performance of the Internal Audit and Anti-Fraud contract and the outcomes of the work undertaken by Baker Tilly are presented monthly to the Section 151 Officer. These can be made available to the Committee on request. Some of the audits in the annual plan are undertaken on a tri-borough basis by either Baker Tilly, the external contractor to RBK&C/LBHF or RBK&C's in house audit team. These audits are managed by the Tri-Borough Director of Audit. The Audit & Performance Committee are provided with updates at each meeting on all RED or AMBER RAG limited assurance audits issued in the period.

4. Internal Audit Opinion

As the provider of the internal audit service to Westminster City Council, Baker Tilly are required to provide the Section 151 Officer and the Audit & Performance Committee an opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

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 with the exception of those areas detailed as "amber" (paragraph 5.1 1 below). This is a positive opinion which means that the Council generally has effective internal control systems with 77% of the audits issued in the period receiving a positive assurance opinion.

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.

Follow up reviews confirmed that the implementation of "fundamental" (high) and "significant" (medium) recommendations has generally been consistent.

Appendix 1 to this report contains details of advisory work completed in the period;

Appendix 2 to this report contains a summary of the performance indicators for the internal audit service;

Appendix 3 to this report details of the schools audited during 2014/15; and

Appendix 4 contains a Glossary of Terms and additional information.

5. Audit Outcomes

5.1 Since the last report to members nine audits have been completed, seven of which did not identify any key areas of concern:

- Sayers Croft Activity Centre (satisfactory assurance, Green RAG);*
- Transportation Commissioning (substantial assurance, Green RAG*);
- Rough Sleepers (satisfactory assurance, Amber RAG);*
- Adult Services - Cash Payments to Clients (satisfactory assurance, Green RAG);
- Tri-borough - IT Cloud Computing (satisfactory assurance, Green RAG);*
- Our Lady of Dolours Primary School (substantial assurance, Green RAG);
- St Joseph's Primary School (satisfactory assurance, Green RAG);

*Further information on these areas is contained in the Glossary in Appendix 4

Two limited assurance audits were issued in respect of Queen Elizabeth II and College Park Special Schools. The findings of these audits are summarised in paragraph 5.1.1 below:

5.1.1 Queen Elizabeth II & College Park Special Schools (Amber)

Queen Elizabeth II and College Park Special Schools are Federated Schools with a single governing body and Executive Head Teacher but each school has its own

finance and administrative procedures. These schools were previously audited in November 2012 and a limited assurance opinion was given to both schools on the adequacy of their systems of control. Due to a number of staff changes at the schools, it was considered appropriate that another full internal audit was undertaken. Both audits have again received limited assurance opinions and follow up reviews will be required later this year. The key weaknesses identified at each school are summarised below.

Queen Elizabeth II Special School (Amber)

This audit resulted in seventeen recommendations being made, one high, four medium and twelve low priority, all of which have been accepted by the school. The key areas of weaknesses identified were:

- Monthly bank reconciliations were not being undertaken and the school's bank account had been overdrawn;
- Delegated financial limits on expenditure were not always complied with;
- An appropriate separation of duties in the purchasing and payments systems was not maintained;
- Quotes/tenders for the supply of goods and services were not always retained;
- Evidence of consistent compliance with the requirements of HMRC for verifying employment status was not available.

College Park Special School (Red)

This audit identified that controls in a number of the areas reviewed were in place but they were not always operating effectively. A number of non-compliance issues were identified, some of which related to transactions processed by officers who are no longer employed by the school. Fifteen recommendations have been made, three high, five medium and seven low priority, all of which have been accepted by the school. Recommendations were made to address the following weaknesses:

- Monthly bank reconciliations were not being undertaken and the school's bank account had been overdrawn;
- The school was not operating an appropriate system for recovering income due and managing debt;
- The school's system for verifying the supply/delivery of services was inadequate and they were paying for a service that they no longer received;
- The financial limits on expenditure were not always complied with;
- An appropriate separation of duties in the purchasing and payments systems was not maintained;
- Quotes/tenders for the supply of goods and services were not always retained; and
- Evidence of consistent compliance with the requirements of HMRC for verifying employment status was not available.

5.2 Implementation of Audit Recommendations

Two follow up audits were undertaken in the period:

Audit	No of Recs Made	No of Recs Implemented / In Progress
Customer Services – Complaints Handling	4	4
St Augustine’s Primary School	17	17

Follow up audit work in the year to date indicates that the implementation of recommendations was generally good (96%) with 92% of fundamental (high) and significant (medium) recommendations implemented by their due date.

5.3 Performance of the Internal Audit Contractor

The key performance indicators for the internal audit contractor are contained in Appendix 2. As shown by the performance indicators, the recommendations made are accepted and implemented in a timely manner and positive satisfaction surveys received from auditees. Performance in the following areas is still below target but it has improved since the last report to the Committee:

- Percentage of audit plan complete;
- Delivery of draft report within 10 days of the exit meeting.

The contractor anticipates that these performance indicators will continue to improve during the next quarter.

6. Anti-Fraud Work Outcomes

6.1 Summary of Housing Benefit Fraud Investigations

6.1.1 Since the last report to Committee, twenty-nine investigations have been completed with one successful prosecution.

6.1.2 The table below illustrates the sanctions achieved in the year to date. From a total of three-hundred and eighteen investigated cases seventeen sanctions have been achieved with £115k in overpaid Housing Benefit identified, of which approximately 13% 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. .

Year 2014/15 Sanction	No of Cases	Overpayments/ Fine	Recovered to Date	Recovery Rate	Comparison Recovery Rate Previous Year
Prosecution	8	£88,746	£13,044	14.70%	8.17%
Official Cautions	6	£ 6,589	£ 0	0%	0%
Administrative Penalties (overpayments & fines)	3	£19,812	£ 2,000	10.09%	1.70%
Totals	17	£115,147	£ 15,044	13.06%	5.57%

6.1.3 The outcome for the one prosecution case is as follows:

- A benefit claimant from W10 was sentenced to a four month prison sentence suspended for two years after pleading guilty to two offences in relation to her claims for Housing Benefit and Job Seekers' Allowance. The claimant failed to declare that she had significant savings in undeclared bank accounts. This resulted in the claimant fraudulently obtaining just over £21k in Housing Benefit and £3.5k in Jobseeker's Allowance. To date, approximately half of the overpaid Housing Benefit has been repaid to the Council. There is a Proceeds of Crime Act court hearing in late October 2014 regarding the recovery of all outstanding monies to the Council and the Department for Work and Pensions (DWP).

6.2 Single Fraud Investigation Service (SFIS) - Update

6.2.1 The team is working with the Tri-borough Head of Fraud to enable a smooth transition of the Housing Benefit Fraud Investigation Service to the Department for Work and Pensions (DWP) by the 1 March 2015. An engagement workshop will be taking place in November with the DWP Implementation Team which will cover:

- New referrals;
- Case migration; and
- Management of Housing Benefit/Council Tax Benefit data requests from the DWP post 1 March 2015.

This workshop will be attended by representatives from the Tri-borough Council's Housing Benefit Fraud Investigators as well as a representative from the Council's Revenue Services and Housing Benefit provider (Capita).

6.3 Summary of General Fraud Investigations

- 6.3.1 Since the last report to the Committee, ten general fraud investigations were completed and three Council properties recovered for re-letting. In addition, the team has been working with the Housing Service to improve the housing application form and a revised form has been agreed and is now in use.

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

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BACKGROUND PAPERS

Internal Audit Reports;
Monthly monitoring reports.

Advisory Reviews – 2014/15

In addition to the audits listed above, one advisory piece of work has been completed since the last report to the Committee by Baker Tilly on behalf of the Council. The engagement partner for the Internal Audit Service ensured that there was no conflict in interest for Baker Tilly in undertaking this review.

Job Title	Scope	Date of Review	Comments
Millbank TM (MEMO)	MEMO was established as a Tenant Management Organisation (TMO) in 1997 under the Leasehold Reform Housing and Urban Development Act 1993 which gave residents a Right to Manage. As a result of the removal of the Chair from the Board in April 2014, and the subsequent events, Internal Audit was requested by Westminster City Council to undertake a review of MEMO's governance arrangements.	September 2014	<p>Internal Audit identified a number of weaknesses which were impacting on the effectiveness of the Board and in turn the estate office. As a result of these 10 fundamental, 15 significant and 3 best practice recommendations have been made in order to implement and improve the governance arrangements in place.</p> <p>Whilst Board Members are familiar with the term 'governance', what this means on a practical level, and how this impacts on the effectiveness of the Board was not clear to everyone consulted as part of this review. The lack of robust governance arrangements had resulted in the Board becoming dysfunctional.</p> <p>A number of independent reviews of MEMO have been undertaken in the past few years and our report advised the Board to allow itself the opportunity to consider these and take the necessary action to ensure that the agreed recommendations are implemented in order to take the organisation in the direction that it wants to go. Historically, reviews have been undertaken and due to a lack of appetite to change, dysfunction within the Board and/or the subsequent challenge of the work/consultants little effort has been directed to act upon the advice given. To achieve greater focus our report recommended that an action plan should be produced, incorporating all of the recommendations, which should be presented to the board for approval and then reviewed and updated at every board meeting until the recommendations/actions are fully implemented.</p> <p>Since the initial audit work was completed, internal audit has been advised by the Council that the current board recognises the previous failings and is working with the Council to comply with both the management agreement and the Rules of MEMO and is taking forward a Service Improvement Plan which has been agreed by the MEMO Board.</p>

Performance Indicators – 2014/15

Internal audit performance is summarised below against a range of performance indicators:

Performance Indicators	Target	Actual	Comments
Delivery			
Percentage of audit plan completed by 30 September 2014	49%	43%	This is slightly behind target as some audits were not progressed as quickly as they should have been. Additional resource has been provided to address this and the performance is expected to be on target in the 3rd quarter of the year.
Percentage of draft reports issued within 10 working days of fieldwork being completed	90%	71%	Performance was affected by delays in the quality review process due to staff leave but it is anticipated that this will be on target by the end of quarter 3.
Percentage of audits finalised within 10 days of a satisfactory response	95%	100%	
Quality			
External audit conclude they can place reliance on Internal Audit work (annual)	Yes		To be confirmed at year end.
Percentage of jobs with positive feedback from client satisfaction surveys	90%	100%	All scored 3 or above.
Percentage of priority 1 & 2 recommendations accepted by management	95%	100%	
Percentage of priority 1 & 2 recommendations implemented by management	95%	92%	Small number of recs not fully implemented at time of follow up.

School Audits

The internal audit strategy allows for the schools within Westminster to be audited on a three-year cycle. The audit programme has been reviewed by RBKC, LBHF and Westminster with the aim of adopting a common approach to school audits across the three boroughs and a revised programme is being used for school audits at the three boroughs.

During 2014/15, a total of 20 school audits are planned:

- 14 primary schools;
- 4 nursery schools; and
- 2 special schools.

Any school which is given a limited assurance opinion will be reported to the Audit and Performance Committee during the year. Follow up audits are undertaken on all schools where fundamental or significant recommendations have been made, regardless of the assurance opinion given.

The table below shows the schools due to be audited in 2014/15. This will be updated and reported to each meeting of the Committee:

School	Assurance	RAG	No of Recommendations	Follow Up – Recommendations Implemented	Comments/ Further Action
Robinsfield Primary School	Substantial	Green	9		
Westminster Cathedral Primary School	Satisfactory	Green	14		
St Barnabas Primary School	Satisfactory	Green	12		
Queen's Park Primary School	Substantial	Green	4		
St Mary's Bryanston Square Primary School	Satisfactory	Green	18		

School	Assurance	RAG	No of Recommendations	Follow Up – Recommendations Implemented	Comments/ Further Action
Queen Elizabeth II Special School	Limited	Amber	17		
College Park Special School	Limited	Amber	15		
St Joseph's Primary School	Satisfactory	Green	13		
Our Lady of Dolours Primary School	Substantial	Green	7		
George Eliot Primary School					
St Mary of the Angels Primary School					
Dorothy Gardner Nursery School					
Portman Nursery School					
Mary Paterson Nursery School					
Tachbrook Street Nursery School					
St Mary Magdalene Primary School					
Paddington Green Primary School					
St Matthew's Primary School					
St Saviour's Primary School					
St Clement Danes Primary School					

Glossary of Terms & Additional Information

Sayers Croft (Main Report - Paragraph 5.1)

Sayers Croft Centre is an activity centre which is managed and operated in partnership with Westminster City Council. The centre is open to schools and youth groups, and is located in Ewhurst, Surrey. The Centre has access to a 56 acre shared landholding within the site offering residential accommodation for 200 visitors. The Council works closely with the Sayers Croft Trust in the delivery of its programmes using some 28 acres of land in the ownership of the trust. For 2014-15, the centre is expected to receive 28,700 'visitor nights'. Discounts are offered to Westminster groups and customers during Autumn and Spring terms to encourage visits from a range of clientele.

Transportation Commissioning (Main Report – Paragraph 5.1)

The Council's Highways and Transportation Service Contracts expired on the 31st March 2014 and covered the following:

- Highways Maintenance (Routine, Reactive) and Capital Works;
- Public Lighting Maintenance (Routine/Reactive) Capital Schemes;
- Bridges and Structures (Routine/Reactive) and Capital Works;
- Transportation Projects; and
- ICT, Highways Maintenance Management System (HMMS).

The service initiated a demobilisation programme in January 2014 and created a transition plan detailing how the Council would manage on-going works that would not be completed by 31st March 2014. One contractor still had a number of projects to complete which would run into late 2014. The audit reviewed the adequacy of the systems in place to manage the delivery and payment of outstanding highways' work.

Rough Sleepers (Main Report – Paragraph 5.1)

The Council provides and commissions outreach teams, day centres, mental health teams and hostels to work 24 hours a day, 7 days a week. The outreach team work to identify who is on the streets as soon as they arrive there and the day centres work to assess need, and prevent people from sleeping rough.

The contracts for the provision of outreach services have recently been tendered and let until 31st March 2018 to three providers; Connection at St Martins; St Mungos (Hotspot team); and St Mungos (Entrenched team)

The number of rough sleepers in Westminster as at the end of June 2014 was 904 over the quarter. This figure represented an increase of 197 rough sleepers on the same period in June 2013. The funding for the provision of the rough sleeping services (£2.4m) is taken from the Homeless Prevention Grant. This audit reviewed the processes in place to manage the cost and delivery of the rough sleeping service.

Cloud Computing (Main Report – Paragraph 5.1)

Cloud computing is where IT services are provided through the internet using shared infrastructure and allows organisations to move their IT services to external providers to achieve cost savings and efficiencies. Three of the Tri-borough applications which are run through cloud solutions; Frameworki which is the Adult's and Children's Services case management system; the Library Management System; and the Bravo Solutions Procurement Application.

The overall objective of this audit was to provide assurance on the adequacy of the Tri-borough cloud service provider (CSP) management arrangements in the following areas:

- Cloud Governance and Information Security Risk Management;
- Cloud Service Provider contract compliance management monitoring (Service Level Agreement and Key Performance Indicators);
- Protection and Privacy of Information Assets in the Cloud.