

### AUDITS COMPLETED FROM 2006/07 AUDIT PLAN

#### Report No 35- 2006/07 – Council Tax

The objectives of this audit were explained to Members in my interim report of February 2007. The opinion of the Auditor is that the Control Assurance Level is **Substantial**. There were no High priority recommendations but an action plan was issued with eleven recommendations. All of these recommendations were accepted and are due for implementation during the current financial year.

#### Report No 36- 2006/07 – Development Control

The objectives of this audit were explained to Members in my interim report of February 2007. The opinion of the Auditor is that the Control Assurance Level is **Substantial**. There was one high priority recommendation that required s106 agreements to be included in the service risk register and this was completed in May 2007. There were a further five audit recommendations made that were all agreed and planned for implementation during the current financial year.

#### Report No 37- 2006/07 – Creditors

The objectives of this audit were explained to Members in my interim report of February 2007. The opinion of the Auditor is that the Control Assurance Level is **Substantial**. At the time of the interim report the initial Control Assurance Level was reported to Members as being Limited. Following the draft audit report there was further information provided that assured the auditor that sufficient internal controls were in place. There were two recommendations made that both agreed and were planned for implementation in the current financial year. One of these was a High Priority recommendation as follows: - Ensure that the dispatch records on the statement of pre-signed cheques issues & usage agrees with the pre-signed cheque dispatch record. (High). Action has been taken to re-design the despatch form for ease of use.

#### Report No 38- 2006/07 – NNDR

The audit brief was to document and review the internal controls regarding NNDR. NNDR is a key financial system and as such is audited every year. This financial year the audit was limited to testing the Key Controls and to follow up recommendations made in the previous audit. The opinion of the Auditor is that the Control Assurance Level is **High** and no recommendations were made.

#### Report No 39- 2006/07 – VAT

The audit brief, annex 1, was issued by the Principal Internal Auditor and was to ensure that the monthly VAT return was completed accurately, to ensure the partial exemption status is monitored and to ensure that corporate VAT liability is minimised through appropriate Tax planning arrangements, update the system notes and to follow up any

recommendations from the previous audit. The opinion of the Auditor is that the Control Assurance Level is **High**. There were some High priority recommendations and the following paragraphs are extracts from the report to assist Members in understanding the testing that was carried out and why the auditor made a High priority recommendation.

Testing of the VAT returns found a one off error where gross figures had been entered instead of net. This had not affected the VAT payable and the returns had been submitted on time.

All 11570 creditor invoices for 2006/7 to date (28/2) were extracted from Integra and the VAT recalculated using Excel. From testing carried out 154 instances were found where the calculated VAT did not agree with the invoiced VAT. A sample of 20 of these was extracted using IDEA and investigated further. Seven were easily confirmed to be correct from the descriptions, thirteen had to be checked to the original invoice and were also confirmed to be correct. However it did highlight one invoice for golf professional services that did not contain a VAT registration number and this had not been picked up by Exchequer staff.

**R3 The Golf Professional must provide a VAT registration number on any invoices submitted for payment. (High)**

**R4 Exchequer staff must ensure that any invoices received without the VAT registration number must be queried and returned to the Service. (High)**

All 3104 debtor accounts for 2006/7 were extracted to date (2/3) and the VAT recalculated using Excel. From the testing carried out this found no errors. A sample of 20 of these was extracted using IDEA and checked to the description on the sales ledger to ensure that the VAT code agreed with the service provided. No errors were found in the sample.

From the samples tested above the VAT registration numbers were noted and 19 invoices had a VAT registration number which was checked to the VAT checking spreadsheet on the staff intranet under Exchequer Services/ VAT. All were found to be correct. There was one invoice mentioned in paragraph that was not correct as it did not contain a VAT registration number and a recommendation has already been made.

It was established that the partial exemption calculation is carried out on a yearly basis, the latest figures being submitted for the financial year 2005/6 to HM Customs and Excise in February 2007, this was confirmed by viewing the email and the attachment sent by the Exchequer Services Manager. There have been delays in producing the figures due to pending queries outstanding with HMCE.

A sample of payments made by Personnel for courses in advance were checked to ensure that a subsequent VAT receipt/invoice has been received and passed to Exchequer Services for filing. As it was not clear from Personnel records whether a

payment had been made by invoice or cheque request the nominal ledger code for courses was interrogated and all payments by cheque request for 2006/7 noted. A random number sample using IDEA meant that 8 cheque requests in total were traced to the Exchequer Sections payment files.

There does not seem to be a clear system for ensuring VAT invoices are pursued and there are variances in whether VAT is charged or not. An email has been sent to Personnel staff with an explanation of when VAT should be shown.

All payments to contractors for 2006/7 were examined in the contract register to ensure that VAT receipt/invoice had been received and filed. There was a total of 5 payments which were checked to the Exchequer Services payment files. Three had suitable VAT invoices, one had an estimated VAT invoice attached (paid 14/2/07) and one required chasing (paid 14/2/07).

According to an emailed procedure on this matter authenticated receipts should be sent out for these and chased within 14 days, if still not received in 21 days they should be advised that future payments will be withheld, if still no receipt after 28 days this should be reported to the Exchequer Services Manager for further action.

**R6 The outstanding payments that did not have a suitable VAT invoice should be chased as soon as possible as per the authenticated VAT Receipt procedure. (High)**

There were three recommendations made at the last audit for 2005/6, through the testing during the audit it was found that:

- R1 payments to contractors was not fully being adhered to,
- R2 payments in advance for course fees were not being fully followed up to ensure there was a VAT invoice/receipt,
- R3 the Exchequer Services Manager is still not always being advised of schemes or projects with VAT implications. This could potentially cause problems as almost occurred recently with a Leisure Services Contract where the Exchequer Services Manager was not made aware of a VAT issue.

**R7 As mentioned in previous audits it is important that Services are reminded of the need to inform the Exchequer Services Manager of any schemes or projects with VAT implications before they proceed and this should be conveyed to all staff. (High)**

The risk register was dated May 2006 and appeared to cover all the relevant areas concerned with tax administration with the exception of an area highlighted by the Exchequer Services Manager regarding tax planning arrangements which are not fully embedded.

An action plan was issued that included the above recommendations and a further three

lower priority recommendations. All of the recommendations have been agreed and were planned to be implemented by the end of March 2007. The High Priority recommendations are in the process of being followed up at the time of writing this report.

### **Report No 40- 2006/07 – DIPS**

DIPS is the computerised Document Image Processing System that has been implemented to store documents relating to Revenues and Benefits electronically.

The audit consisted of sampling a number of scanned documents for quality of image and correct indexing. There were no problems arising from this testing. However, the opinion of the Auditor is that the Control Assurance Level is **Limited**.

The concern of the auditor related to the storage and disposal of documents once they had been scanned. The original plan was to send the documents to an external storage firm but this is costing more than originally budgeted for. Although the documents are being locked away the access to them is considered to be a weakness. There were seven recommendations made in the report of which four were high priority.

There has been a delay in agreeing the report as further clarification has been sought from the District Auditor and other authorities relating to how long scanned documents should be retained. The District Auditor has agreed with the Chief Internal Auditor that once the scanned documents have been checked for quality control then they can be disposed of as confidential waste.

The following High Priority recommendations were made: -

**R3 Produce a policy regarding the retention periods of scanned documents. (High)** – This recommendation was agreed with a target for completion of August 2007. The policy has been agreed with the Revenues & Benefits Manager as being three months retention which should ensure that all quality control checks are complete.

**R4 Following the introduction of the above policy all scanned documents should be held with 'box It' rather than storing them in the xxx for the agreed period. (High)** – This recommendation was not agreed due to the prohibitive cost of doing so.

A compromise has been reached where it is intended to store the documents in a more secure environment until disposal.

**R5 Ensure that all documents/files are held in locked cabinets. (High)** – This was agreed and alternative storage is being considered.

**R7 Complete a risk register relating to IDOX. (High)** – Agreed to be completed by September 2007. This is still within the follow up period of checking.

**Report No 41 - 2006/07 – Sundry Debtors**

This report consisted of using the District Audit matrix for testing the key controls. In the opinion of the Auditor the control assurance level is **Substantial**.

There were no high priority recommendations arising from the report. All of the recommendations made were agreed and are defined as being planned.

The following paragraphs inform Members of the controls tested in order to reach the assurance opinion.

The previous audit of this system was carried out in January 2006. There were six recommendations made as a result of the report. All of these were agreed and action dates were planned.

A random sample of 20 from the 6,246 invoices created in 2006/07 was selected from Integra using IDEA.

The debt on each invoice was traced to source and amount of debt verified. One invoice relating to CCTV coverage had been identified as incorrect and was cancelled by a credit note before a corrected invoice was issued.

The detail of each invoice in the sample was extracted from Integra. The invoice details were then checked against the coding held on the nominal ledger. No queries arose from this exercise.

The VAT classification for each invoice was checked against the VAT regulations. Although it was established that the VAT coding for all of the sample was correct the invoicing of leisure facilities required additional investigation.

VAT regulations require specific circumstances where hiring of facilities can be deemed as exempt. Guidance was given by the VAT inspector in September 2005 following his review.

The main area of concern was that block bookings should be charged for in blocks of ten in advance of the first booking.

There was an instance of where a block booking was being invoiced in stages but the VAT rules only allow for an invoice to be prepared for the complete period of the let and for instalments to be made. This practice would reduce the number of invoices prepared by Leisure Services and enable VAT regulations to be met as well as being clear for inspection.

Testing was carried out to ensure that adequate recording of debt takes place and that outstanding debt is chased with collection rates being monitored against targets. An adequate system is in place to regularly inform management of the debt collection position.

Testing took place to ensure that the debtors system is reconciled to main accounting

System and no queries arose.

A separation of duties exists between invoicing and collection

Arrears recovery procedures are clearly defined, appropriate and implemented with Guidance notes available on the staff intranet.

Testing took place to ensure that mechanisms are in place to ensure that all sundry income is invoiced, including periodical income, and major areas of activity in departments. The sample accounts were found to be in order.

The one concern with regard to Periodic Income accounts is the requirement of Integra to set them up annually on April 1. The number of accounts is just under 100 and these have to be manually input by the Exchequer Officer. This raised a concern that all of the responsibility for inputting the data on a short time span falls to one individual and in the event of sickness the files may not get input on time.

Invoices are raised on serially numbered forms, which can be traced to individual officers/departments.

The IT system is regularly backed and is held securely.

The Risk Register for the service was obtained and examined. The latest risk register is dated and appears adequate.

### **Report No 42- 2006/07 – Insurances**

The audit brief was to ensure that insurance claims are processed promptly and correctly for appropriate settlement or conclusion, update any system notes and to follow up any recommendations from the previous audit.

In the opinion of the auditor the control assurance level is **Substantial**.

There were four recommendations made and one of these was a high priority. The audit consisted of testing a sample of claims and the supporting documentation. The high priority recommendation was that the claims files should be locked away overnight as they contain personal data. All of the recommendations made were agreed and were due to be implemented in the current financial year.

The areas of testing were as follows: -

A random sample of twenty claims for the year 2006/7 was selected using the random sampling function in IDEA. Six were for Leased Cars, five were liability claims and nine were property claims. An examination of the office procedures, the insurance claim ledger which includes all claims under their unique reference number, the correspondence and the claims submitted ascertained that sixteen claims in the sample

have been processed within thirty days. Three were processed in over 30 days but it was established that claims are dealt with as soon as the information is received however this could not be verified in all cases.

Using the above sample of twenty claims, the correspondence was examined and the dates noted to assess whether Zurich were being promptly fed any relevant information. Where applicable, it appears that correspondence is being promptly dealt with. It was noted however that the claims file was not locked away but contained personal information.

For the sample of six leased car claims randomly selected, five debtors accounts had been sent to Zurich up to twenty-two days following receipt of the invoice. An investigation as to why an account would take three weeks found that the particular claim in question being dealt with over the Christmas holiday period. The remaining lease car claim reference was actually for bulk windscreens (none so far this year to date of the audit,) which are noted on the ledger for reference purposes.

For the sample of five randomly selected for liability, the Insurance Officer is kept informed by quarterly statements from Zurich for public liability and yearly for personal accident due to these being paid direct to the claimant. Of these five claims, two had been settled and three were incomplete.

For the sample of nine randomly selected for property, a debtor account was raised for four of them less the excess, one was due an account but would have been picked up when the year end report on balances outstanding was run, two were not concluded and two were not valid/below the cost of repair.

Where excesses were applicable e.g. for four of the Leased car holders' claims, it could be verified by checking the Integra Nominal Ledger that the excess had been deducted from their salary and no problems arose. For property claims the excess is coded to the Service code and the rest of the claim coded direct to the insurance re-charge code, it could be ascertained that the three of the four had been correctly coded to the insurance re-charge code and one had been appropriately dealt with to ensure the amount processed was correct.

From the sample checked there were some examples where experience was acted upon, for example there is now a Grounds Maintenance contract covering the trees surrounding the houses in woodland areas. In addition the Insurance Officer makes contact with the Service where appropriate to discuss/highlight any risk areas, this is not always made in writing.

The risk register for Exchequer Services (Insurance) was obtained and found to be dated May 2006. It appeared to cover the relevant risks associated with Insurance.

It was confirmed and an example report obtained that Insurance claims history is reported to the Audit Committee on a quarterly basis.

## Report No 43- 2006/07 – Housing & Council Tax Benefits

The audit brief, annex 1, was issued by the Principal Internal Auditor and was to audit the key controls relating to benefits application form accuracy, ensuring adequate procedures exist and that claims are processed accurately to meet DWP guidelines, update the system notes and to follow up any recommendations from the previous audit.

In the opinion of the auditor the control assurance level is **Substantial**.

There were five recommendations made and none of these were high priority. The recommendations were all agreed are planned to be introduced within the current financial year.

The areas covered in the audit were as follows: -

Testing confirmed that only authorised staff are able to amend the system parameter files.

A sample of twenty cases was tested for accurate calculation of benefit entitlement and no queries arose.

The batch control spreadsheet lists all the outputs from iWorld except for any adhoc reports that may be run. This was examined and analysed by questioning the appropriate member of staff to establish what the reports were for and whether they were checked. It was confirmed by an audit check that all had been checked within the last month.

The Benefits Development Officer was able to evidence how payments made by BACS and cheque were reconciled with Integra, the latest reconciliation examined was for 28 March 2007.

It is a requirement of BVPI 79a that we have accuracy of processing: that is a percentage of cases, within a random sample, for which the authority's calculation of housing and council tax benefit is found to be correct. The process for collecting the information is explained in a BVPI 79a procedure. The evidence of this was examined during the audit and included the DWP Statistical Return STATS 128 and the BVPI quarterly reporting reports. Each quarter 125 cases are randomly selected and checked by the Benefits Assistant for accuracy which is recorded on a spreadsheet. For April to December 2006 we have achieved 99% accuracy and this is the target for TMBC.

The IT system was found to be secure and backed up at regular intervals. The latest Revenue and Benefits Disaster Recovery Plan for 2006/7 was examined and appeared to be adequate, however it requires amending now that the centralisation of the Benefits Staff is now complete and due to the recent changes in staff.

The last register was dated March 2006 and appeared to cover all risk areas, however under the existing controls column it was noted that internal and external audit were



listed throughout the register. This should be deleted as audit is there to give assurance not as part of the controls.

When following up the audit recommendations made at the last audit it was noted that the audit request for procedure notes failed to produce any during the audit, these have been persistently requested with no success.

### **Report No 44 - 2006/07 – Benefit Forms Application Form Accuracy**

The audit brief was to audit the controls relating to benefits application form accuracy, ensuring adequate procedures exist and that claims are processed accurately to meet DWP guidelines, update the system notes and to follow up any recommendations from the previous audit.

In the opinion of the auditor the control assurance level is **Limited**.

Six recommendations were made of which two were high priority. All of these were agreed and are in varying stages of being implemented.

The areas of audit covered are contained within the following paragraphs: -

The most up to date Housing Benefit and Council Tax Benefit Security Guidance available from the DWP was found and was dated June 2006. The authority still uses and bases their standards and procedures upon this guidance although the Verification Framework Scheme has been abolished.

According to the Principal Benefits Officer the procedures for benefits application form accuracy have not changed since the abolition of the VF framework and the DWP guidelines adopted. However there are no written office procedures available.

A report was obtained from iWorld and the data imported into IDEA (Interactive Data Extraction Analysis system), from this a random sample of twenty was extracted, four of these had been scanned and all the relevant information was found on IDOX, sixteen of the relevant files were located. The files and/or IDOX were examined together with iWorld system data to verify the evidence and to ensure all details were correctly recorded in order to ascertain that the benefit entitlement was accurate.

As a result of checking the above sample of cases a number of queries arose. Thirteen of the twenty cases were found to be all in order. The remaining seven had queries or anomalies ranging from no identification being found on file to incorrect information being found on the IDOX screens.

One file was found where there was no proof of identity of the claimant. It is a requirement of the validation process that two forms of identity are obtained. A further sample of nineteen cases were examined where a further two cases only had one form of identity. The auditor also found that some of the filing cabinets containing the benefit files were unlocked. Keys had been obtained by the Chief Internal Auditor to ensure that all of these filing cabinets can be locked.

The Principal Benefits Officer was aware that there are approximately one hundred cases outstanding which had been not been followed up due to the intervention target been met and a lack of resources to continue the exercise.

Following a recent audit on the DIPS system a recommendation was made and a request put into IDOX to force staff to carry out a lookup when indexing the documents to ensure that they are indexed correctly. The request form dated 16th April 2007 was seen but the change has not yet been made.

From April 2007 the way the authority carries out interventions and what they focus on will be changing and will evolve over the next few months as the targets are going to be focussed on benefit reduction for approximately 80% of the caseload. For 2006/7 the authority's annual target for intervention was 3140 of which 1250 must have been completed by a visit. This was revised when the new security performance measure PM10 came out (measuring the number of reduction in benefit entitlement) to 45% of the caseload which was 2830 of which 940 must be visits. These revised targets were met by February 2007 and the statistics were examined that show the target had been met and exceeded.

Using the same sample as above the iWorld intervention management screen was examined and it was noted whether an intervention had been carried out in the last three years. All had been either visited or sent a postal review in the last three years except for two new claims which are verified prior to the claim being processed.

The last risk register was dated March 2006 and appeared to cover all risk areas.

All recommendations made in the last audit were agreed and implemented as per the completed action plan.

### **Report No 45 - 2006/07 – Building Control**

The audit brief was to audit the controls relating to Building Control, update the system notes and to follow up any recommendations from the previous audit.

In the opinion of the auditor the control assurance level is **Substantial**.

There was one high priority recommendation that related to a previous audit report. The query that arose was with regard to a previous recommendation was to check whether an invoice has been raised regarding the Fee B before a completion certificate

is issued. From discussions with the Principal Building Control Officer it was established that IT Services have been contacted to amend a current report that is produced of Building Control completed inspections to include an invoice date column. This report would then be run on a regular basis and any completed inspections without an invoice date would be investigated. This was agreed with an implementation date of June 2007 targeted. The recommendation is still within the follow up period.

The Government websites were accessed to establish the principles of the Government Regulations. A copy of the charges relating to 2006/07 as held on the Council's website were obtained together with a copy of the fees agreed by Cabinet.

The latest Risk Register held on the share drive is dated March 2005. The Chief Building Control Officer was contacted from which it was established that the risk register is currently being reviewed. A draft was obtained and upon examination it appears adequate and now includes reference to a UNIFORM report which monitors applications received with no fees being paid.

From a sample of 20 Building Control applications randomly selected using the audit software all fees had been calculated correctly, the fees had been processed promptly and all payments had been coded correctly and located on Integra.

#### **Report No 46 - 2006/07 – Benefit Fraud Investigation**

The audit brief was to audit the controls relating to Benefit Fraud Investigations, update the system notes and to follow up any recommendations from the previous audit.

In the opinion of the auditor the control assurance level is Limited.

There were eight recommendations made of which six were high priority. The recommendations were all agreed and are in the process of being implemented.

The recommendations for the previous audit were followed up and all was found to be in order.

A report was obtained of all referrals received in 06/07. A sample of 20 was then checked against the referral database to ensure they appeared there. A sample of 20 referrals where there was no further action was selected. Each paper referral was obtained and checked to ensure the reason for no further action was reasonable.

All referrals were found and all appeared to have good reason for no further action.

A sample of 20 fraud files was randomly selected and a check made to ensure that the investigation was carried out in accordance with various procedures. All were found to be in order except for supervision as covered later.

From the 20 files selected in a further check was made to ensure that the investigation was complete and that there had been sufficient supervision. In all 20 files a Benefit Investigation Closure sheet had been completed. The Managing Investigations procedure note was obtained. There is a set percentage of checking required for 3 different areas.

The first of these targets is to review the caseload monthly in order to comment on capacity to accept new cases. Although this check is not complied with as set out in the Fraud Procedures a monthly spreadsheet is distributed showing details of cases closed and current caseload.

The second area is quality assurance during the investigation stage which has a 10% check requirement. The Senior Benefits Investigator stated that all cases are reviewed in full at the end of the investigation for full compliance with the standards of quality but this is not being recorded. The 10% sample during the investigation stage is not being achieved.

The third area is a key stage review of all cases over three months old in order to determine whether or not they should proceed. This review has not been achieved.

None of these had reached the target according to the Senior Benefit Investigator due to limited time available. Also the procedure notes do not mention the Benefit Investigation Closure Sheet.

The report recommended that the Managing Investigation Procedures should be reviewed and it should be decided if the required number of checks is still appropriate and if so ensure that these are carried out. This was agreed and it was planned to re-introduce these from July 2007.

A report was obtained listing all closed cases in 06/07 and a sample of 20 cases was selected. From this sample, 10 out of the 20 were concluded as fraud proven. The files were then examined to ensure that the appropriate action had been taken.

In all cases it appeared that the action taken was in accordance with the public interest. The Prosecution Policy needs updating and apparently there is a working party looking into this. The Policy should be reviewed annually. The amounts relating to different sanctions has been changed by the Department of Works and Pensions (DWP). The Policy needs to clearly state that it is just a guideline and each case will be looked at individually and may warrant different treatment than the guidelines state.

The procedures were examined to ensure that the safety of staff is properly monitored with respect to planning interviews, carrying out visits and carrying out surveillance. All was found to be in order the procedures are adequate.

When surveillance is required a request must be sent to the Director of Finance to obtain authorisation. Within this authorisation there is a section that is completed which relates

to the area that the surveillance will be carried out and any associated risks will be identified. All was found to be in order the procedures are adequate.

The latest Risk Register was dated November 2006 and from examination no queries arose.

A copy of the monitoring three-quarter report (April – December 2006) was obtained and the BVPI results were discussed with the Chief Internal Auditor. Not all BVPI targets were achieved although there is a good reason for this and so no recommendation has been made. One member of staff was on long term sick leave and when they returned to work they reduced their hours to part time.

It was found that the Benefits section doesn't perform work relating to Fraud Investigations as a priority. HBMS referrals have a time limit. Either a fraud investigation needs to be opened or a decision made that no further action is required within two months.

The procedure is for referrals to be given to Benefits Section for an initial sift so they can rectify the benefit if appropriate and identify potential frauds for referral to Benefits Investigation Section. As Benefits have not always performed their initial review within this two-month period it will affect the Councils Benefit Performance Standards Figures.

Action has been taken to rectify this situation and HBMS referrals are currently up to date.

Fraud files are passed to Benefits at the end of the investigation so they can work out any overpayment and sign the closure sheet. Only once this is done can a sanction be issued. Again as this is not seen as a Benefits Section priority there is a back log of files.

This will affect the cases closed figures but of greater consequence may result in cases becoming time barred and therefore the Council will not be able to issue a sanction. This has also been addressed by employing a temporary member of staff to clear the backlog.

The Benefits Section has also received a number of referrals through the National Fraud Initiative (NFI) data matching exercise. These referrals have also been given a low priority and remain outstanding. Compliance with the NFI is a measurement in the Key Lines of Enquiry review and a failure to complete the initial data sift could result in a poor score in the review.

The temp is also dealing with these referrals.

Another problem is being able to locate the benefit claim files. A prosecution may fail if this is not available. A number of files appear to have been lost since they have been relocated centrally. This has been raised by the External Auditor and discussed at Audit Committee who requested that Benefits supply some detail of the number of files deemed missing and investigate their possible location.

Effort has been made by the Chief Internal Auditor and the Revenues & Benefits Manager to trace and record the location of files. As a result there are now only six files identified as missing and a spreadsheet has been given to the Principal Benefits Officer with the location of every file. It is his responsibility to record the movement of all files on the spreadsheet.