



Report for: INFORMATION
Item Number: 10

Contains Confidential or Exempt Information	No
Title	Quarter 2 Internal Audit & Investigation Update Report
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Portfolio	Cllr Yvonne Johnson - Finance, Performance and Customer Services
For Consideration By	Audit Committee
Date to be Considered	29 November 2016
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	N/A

Purpose of Report:

The attached report provides the Audit Committee with an update on the work of Internal Audit & Investigations for Quarter 2, 1 April – 30 September 2016 (To date for internal audit work).

1. Recommendation

1.1 It is recommended that the Audit Committee notes the performance of the Internal Audit & Investigation team and key issues arising during the period 1 April – 30 September 2016 (to date for the internal audit team).

2. Reason for Decision and Options Considered

2.1 This is a programmed, periodic report outlining the progress of internal audit and investigations functions, therefore, no decision is required.

3. Key Implications

- 3.1 Internal audit is an assurance function that provides an independent and objective opinion to Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving corporate objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. While assurance will also be sought from third parties, the assurance gained from the programme of work set out in the 2016/17 Plan will form the main input for the development of the 2016/17 opinion to Council.

4. Internal Audit Performance as at 18 November 2016

- 4.1 This report provides a progress update on the work of internal audit to the 18th of November 2016.
- 4.2 The contract with the new Strategic Audit Partner, PwC, was signed in June of this year, with audit work for 2016/17 starting shortly after this. As such, the update has been provided to the 18th of November, rather than the end of September (Quarter 2), to provide the Audit Committee with the most up to date position on progress against the audit plan, given the delayed start to the programme this year.
- 4.3 The 2016/17 Plan was approved by the Audit Committee in March 2016. The plan presented was indicative and can be subject to revision during the year to take account of changing priorities and emerging risks, which is aligned with good internal audit practice. The Audit Board monitors progress against the plan and the Section 151 Officer and the Director of Finance meets with the Head of Audit & Investigations and the Strategic Internal Audit Partner to discuss progress and emerging findings.

Assurance Mapping and Revised 2016/17 Internal Audit Plan

- 4.4 Following the appointment of PwC an assurance mapping exercise has been undertaken, to ensure that audit work is aligned to the Council's assurance requirements and that audits are focussed on the key risks to the organisation. The main benefits of having an assurance map are:
- Ability to prioritise the assurance resource where it is needed leading to a 'smarter' audit plan;
 - Greater understanding of the organisation's control environment and key risk areas; and,
 - Identification of any gaps or duplication in the assurance framework leading to efficiencies.
- 4.5 Following the completion of the assurance mapping exercise, the results were compared to the indicative plan for 2016/17. As a result, audits were added, amended or removed on the plan according to the risks identified and level of assurance that may already in place, ensuring that resources are prioritised on high risk areas. Medium and low risk areas have also been considered and included where there is a specific appetite to audit these activities, for example, internal audits of schools and key financial controls. This exercise has meant:

- 29 audits have been removed from the plan, as independent assurance can be taken from elsewhere (as identified through the assurance map) or the risks have been assessed following a scoring process as lower than when the original plan was prepared;
- 10 audits have been merged, as the risks being covered are the same; and
- 5 audits have been added to the plan, as there were gaps in assurance resources.

4.6 Where an area has been re-assessed as lower risk and removed from the plan this will be revisited as part of the 2017/18 planning process to consider whether the risk profile has changed and if it should be included as part of a future audit programme or work.

4.7 A summary report on the Assurance Mapping exercise is included in Appendix A of this report.

4.8 The details of the audits removed from the indicative 2016/17 plan are provided in Appendix B.

4.9 The following table shows progress against the revised 2016/17 audit plan, illustrating the status (draft/final/in progress etc) of each review:

	Audit Title	Scope	Undertaken by	Audit Status	Original Plan
1	Mortlake Crematorium	Probity review of financial management	In-house resource	Finalised – Substantial Assurance	Yes
2	Specific School Audit – Financial Governance	Review of financial management in a school following management request	In-house resource	In progress	No – Management request
3	Review of school catering contract	Contract management review of the school catering contract	In-house resource	In progress	No – Management request
4	S106 Income/CIL	Review of MCIL arrangements and income/expenditure monitoring for S106	PwC	Draft report issued	Yes
5	Fire Safety, Asbestos and Legionella	Review of H&S assessments, governance, monitoring of remedial actions and training arrangements for fire safety, legionella and asbestos for non-residential properties across the Council	PwC	Draft report issued	Yes
6	Care Homes	Review of monitoring arrangements for the Council's Care homes	PwC	Scoping (to be delivered in Q4)	No – New high risk area
7	Assurance mapping	Development of assurance map for 2017/18.	PwC	Finalised (Audit opinion not applicable)	Yes
8	Contract Management	A review of the governance	PwC	In progress	Yes

		arrangements for six contracts			
9	Continuous auditing and monitoring Phase 1 (Key financial systems)	Audit of key controls for five key systems: Accounts Payable, Accounts Receivable, NNDR, Council tax, Payroll	PwC	Draft report issued	Yes (KFS)
10	Continuous auditing and monitoring Phase 2 (Key financial systems)		PwC	To be delivered in Q4 (w/c 20 th February)	
11	Public Health Governance	A governance and financial management review of Ealing's involvement in the procurement process for Pan London E- Services/home testing service and Sub-Regional procurement of face to face/clinic provision	PwC	Finalised (Substantial assurance)	Yes
12	Schools themed audits – Payroll and safe recruitment	Review of payroll and safe recruitment arrangements in 5 schools maintained by the Council	PwC	Draft report issued	Yes
13	Schools themed audits – Procurement	Review of procurement arrangements in 5 schools maintained by the Council	PwC	Draft report issued	Yes
14	Schools themed audits – Financial governance	Review of financial governance arrangements in 5 schools maintained by the Council	PwC	Draft report issued	Yes
15	Customer portal	Review of processes and controls in place over user access rights, project change management and the user experience for Customer Portal	PwC	Finalised (Reasonable assurance)	Yes
16	Highways payments	Review of payments to contractors to confirm these are valid, accurate and complete. This included the end-to-end process from commissioning works, authorising works, delivery and payment	PwC	Finalised (Substantial assurance)	Yes
17	Cash Handling	Review of expenditure approval, reconciliations, reimbursements and cash security for the Greenford Business Service Centre	PwC	In progress	Yes

18	Temporary Accommodation	Review of governance arrangements and spend in temporary accommodation	PwC	Scoping - to be delivered in Q4 (w/c 9 th January)	Yes
19	Housing stock – Fire safety	Review of Fire Safety Policy implementation	PwC	Scoping - to be delivered in Q4	Yes
20	Leasehold Services – Capital Spend	Review of the effectiveness of recovery of costs from leaseholders	PwC	Scoping - to be delivered in Q4	Yes
21	Town Hall Redevelopment	Governance review of the Town Hall redevelopment project	PwC	Scoping started but audit to be delivered in Q4 due to status of the project	Yes
22	Eligibility to work	Review of the recruitment processes and assessment of eligibility to work	PwC	Scoping – to be delivered in Q4	No – New high risk area
23	ICT transition programme/ Serco contract exit plan	Review of the transition programme from Serco to the new provider – governance, project plan, finance; Review of the Serco exit plan, including review of handover document requirements and compliance.	PwC	In progress	Yes
24	IT Risk diagnostic	Use of IT Risk Diagnostic to identify risk areas	PwC	Scoping - To be delivered in Q4	No – tool to ensure risk based approach to audit resource allocation
25	Highways Network Assets	Review of the process developed by the Council to revalue Highways Network Assets to ensure that the balance is complete, accurate and valid.	PwC	In progress	Yes

It should be noted that the three schools thematic audits result in 45 individual reports (15 schools reviewed per theme) and the Continuous Audit Monitoring covers five of the individual key financial reviews on the original 2016/17 plan.

4.10 Key performance indicators (KPIs) have been established to measure the delivery of the audit service across the shared service. These are how we measure our performance to ensure that all audits on the plan for each Council are delivered by the end of the financial year. The shared service KPIs for

delivery against the audit plan for each quarter are (based on draft reports issued):

- Quarter 1 – 15% of 16/17 audits delivered (draft report issued)
- Quarter 2 – 35% of 16/17 audits delivered (draft report issued)
- Quarter 3 – 65% of 16/17 audits delivered (draft report issued)
- Quarter 4 – 100% of 16/17 audits delivered (draft report issued)

The table below provides a summary of progress in terms of the number of reports at draft or final stage and those in progress:

Audit Status	Number of reviews	Percentage Completion
Finalised	5	20%
Draft	6	24%
In Progress	5	20%
Audit scoped, scheduled to start fieldwork	3	12%
Scoping in progress	2	8%
To be scoped for Q4 delivery	4	16%
Total	25	100

4.11 The current percentage output of 44% of the plan delivered at draft or final stage is below the target for this stage of the year, due to the delayed start to the audit plan. The progress tables at Section 4.9 and 4.10 above demonstrate the level of work in progress and the schedule for the rest of the audit year. As such, despite the late start due to the new audit contract, the plan will be delivered in full by the end of March 2017.

4.12 There have not been any reports with Limited or Nil assurance finalised to date.

4.13 Follow Up of Recommendations

All outstanding Priority 1 recommendations from the previous Strategic Audit Partner, Mazars, were followed up and reported to the July Audit Committee. The Head of Audit and Investigations is working with PwC to implement their own bespoke recommendation tracking tool, TrAction, and an update on the progress of this will be provided to the next Committee meeting.

5. Counter Fraud and Investigations Performance & Developments

5.1 The Shared Service is responsible for the investigation of all types of suspected fraud within the Council, including but not limited to:

- Corporate fraud matters in relation to offences committed by employees;
- Procurement fraud by employees, contractors or other third parties;
- Fraud within schools;
- Housing related fraud;
- Council Tax Reduction fraud; and,
- School placement applications.

5.2 It has been reported previously to the Audit Committee that three Investigation Officer's successfully qualified as accredited financial investigators. They have now been able to utilise these skills and have obtained 3 confiscation orders, which will ultimately result in monies being returned to Ealing Council. These officers are continuing to promote their work across the shared service, which will lead to more confiscations and recovery action against those that have been involved in criminal conduct.

5.3 Ealing Council will be part of the pilot for the London Counter Fraud Hub (LCFH). The LCFH will use data provided by local authorities and other sources to increase the detection and prevention of fraud across London, using advanced data analytics and matching systems. CIPFA has been awarded the contract to run the LCFH.

5.4 Enhanced Vetting (EV)

5.4.1 Ealing Council has a risk assessed process of Enhanced Vetting for new recruits into both permanent and temporary posts and involves stringent checks to verify the validity of a candidate and their employment application.

5.4.2 The EV team are currently working closely with the Contract Officer preparing for the introduction of Adecco to ensure a robust partnership process for temporary assignments. Reasons for failure to progress into a post have included Benefit and Council Tax fraud, Housing fraud, false employment history, false references and false qualifications.

Case study:

Candidate A was a successful candidate for a high profile and sensitive post. The role required a level of qualification. EV identified the candidate dishonestly misrepresented their qualification attainment for 3 separate qualifications.

Candidate B was a successful candidate for a customer facing position of trust. The role required a level of qualification. EV identified the candidate dishonestly misrepresented their qualification attainment and provided a reference which they tried to conceal had been provided by their partner.

EV Case Assurance Profile - Cases Complete			
Case Status	Cross Council		
	Total	Temp	Perm
Complete	330	63	267
Pass	304	56	248
Fail	8	2	6
3 rd Party Referral*	3	0	3
Withdrawn	15	2	13
Agency Fraud	-	-	-
Assignment Ended**	3	3	-

*3rd Party Referral – represents a suspected fraud that has been identified as result of enquiries for example a benefit fraud by another member of a candidate’s household.

**Assignment ended specifically means that whilst enhanced vetting had commenced, the individual assignment had ended before the enhanced vetting activity could be completed. It should be noted that there will always be an element of this particularly in services where there is a high level of short-term placements e.g. Care Workers.

5.5 National Fraud Initiative (NFI)

5.5.1 All data sets required from the Council have now been uploaded to the NFI portal. In February 2017 we will be provided with the results of this data match. The Committee will be provided with an update on the progress of the NFI data match in quarter 4.

5.6 Investigation team performance to 30 September 2016

5.6.1 Proved actual fraudulent loss incurred by the Council, for cases closed to 30 September 2016, totals £322,000.

5.6.2 In addition to the total actual loss of £322,000, notional savings of nearly £280,000 have also been identified, as detailed below:

The Right to Buy scheme helps eligible council and housing association tenants in England to buy their home with a discount, in London, of up to £104,000. A Right to Buy sale that proceeds based on the provision of incorrect information results in a loss to the authority of a valuable asset at a fraction of its true value.

The two Right to Buy application refused as the result of investigations would therefore provide a notional saving of £208,000.

In their Protecting the Public Purse 2012 publication the Audit Commission identified an average annual notional cost of £18,000 to house a family or individual in temporary accommodation. This average notional cost has been used to estimate the nominal cost to the public purse of housing a tenancy fraudster.

The 4 tenancy recovered following investigation would, therefore, provide a notional saving of £72,000.

5.6.3 The table below details the performance of the team against the targets that have previously been set:

A&I, Performance Indicators, 2016/17 to September

	2015/16 year-end	2016/17 target	2016/17 profile	2016/17 actual
Intelligence				
Number of new cases started	435	550	275	293
Number of cases passed for investigation	236	375	187	122
Average time from receipt of referral to 'Accepted' and forwarded for investigation	21 days	16 days	N/a	12 days
Investigation				
Number of completed investigations	255	250	125	118
Number of cases where fraud established (balance of probabilities)	51	68	34	16
Number of sanctions applied (includes: Prosecution; Police caution; Disciplinary action; Tenancy application refused; Right To Buy application rejected; Council property recovered; Council Tax Reduction Scheme penalty; Blue Badge warning)	38	68	34	15
Number of council properties recovered (included above)	9	20	10	4
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	N/A	£75,000	£37,500	£0

6. Financial

- 6.1 All investigations activity covered in this report is being delivered within the Audit & Investigations budget.

7. Legal

- 7.1 Counter Fraud work is carried out in compliance with criminal and civil law and criminal investigation procedures relevant to investigation work including: the Police and Criminal Evidence Act (PACE) 1984, the Criminal Procedure and Investigations Act (CPIA) 1996, the Social Security Administration Act 1992 (as amended), the Human Rights Act 1998, the Regulation of Investigatory Powers Act (RIPA) 2000, the Anti-Terrorism Crime and Security Act 2001, the Public Interest Disclosure Act 1998 and relevant Employment Law, Fraud Act 2006, Proceeds of Crime Act 2002.

8. Value for Money

- 8.1 Value for money reviews have been identified within the audit plan.

9. Sustainability Impact Appraisal

- 9.1 Not applicable.

10. Risk Management

- 10.1 The Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

11. Community Safety

- 11.1 Not applicable.

12. Links to Strategic Objectives

- 12.1 The issues outlined in this report have a particular focus on the Council's organisational improvement objective 'Becoming a high performing organisation, focused on the needs of its communities'.

13. Equalities and Community Cohesion

- 13.1 Not Applicable.

14. Staffing/Workforce and Accommodation implications

- 14.1 Applications have closed for the permanent Head of Audit and Investigations post. The shortlisting process is underway and interviews will be conducted in December.

15. Property and Assets

- 15.1 Not applicable.

16. Any other implications

16.1 None.

17. Timetable for Implementation

17.1 Not applicable.

18. Appendices

18.1 Not applicable.

19. Background Information

19.1 Details of internal audit reports are available to Members upon request from Jeremy Welburn, Interim Head of Internal Audit & Investigations, welburnj@ealing.gov.uk.

Consultation

Name of consultee	Department	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Ian O'Donnell	Executive Director of Corporate Resources	16.11.16	18.11.16	Throughout
Ross Brown	Interim Director of Finance	15.11.16	16.11.16	Throughout
Cllr Yvonne Johnson	Portfolio Holder – Finance, Performance & Customer Services	18.11.16	N/a	

Report History

Decision type:	Urgency item?		
For information	No		
Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
Report no:	Report author and contact for queries: Jeremy Welburn, Interim Head of Audit & Investigations, ext 8571		

