



<b>Report for:</b> <b>INFORMATION</b>
<b>Item Number: 7</b>

<b>Contains Confidential or Exempt Information</b>	No
<b>Title</b>	Head of Internal Audit Annual Report and Opinion, Incorporating Quarter 4 Internal Audit & Investigation Update Report
<b>Responsible Officer</b>	Ross Brown, Director of Finance Mike Pinder, Head of Audit & Investigations
<b>Author</b>	Mike Pinder, Head of Audit & Investigations <a href="mailto:PinderM@ealing.gov.uk">PinderM@ealing.gov.uk</a>
<b>Portfolio</b>	Cllr Yvonne Johnson - Finance, Performance and Customer Services
<b>For Consideration By</b>	Audit Committee
<b>Date to be Considered</b>	24 <sup>th</sup> May 2017
<b>Implementation Date if Not Called In</b>	N/A
<b>Affected Wards</b>	All
<b>Keywords/Index</b>	Internal audit and investigations

**Purpose of Report:**  
The attached report provides Audit Committee with the Head of Internal Audit Report and Opinion on the Internal Audit work completed in 2016/17 and incorporates an update on the work of Internal Audit & Investigations for Quarter 4, 1<sup>st</sup> January – 31<sup>st</sup> March 2017.

## 1. Recommendation

1.1 It is recommended that the Audit Committee:

- Note the performance of the Internal Audit & Investigation team and key issues arising during the period 1<sup>st</sup> January – 31<sup>st</sup> March 2017.
- Note the Head of Internal Audit Annual Opinion.
- Agrees the Internal Audit Charter.

## **2. Reason for Decision and Options Considered**

2.1 The Public Sector Internal Audit Standards require that the Head of Internal Audit (for the Council it is the Head of Audit and Investigations) presents an annual report to an Authority's Audit Committee. This is reflected in the terms of reference of the Committee. The report provides Members of the Audit Committee with:

- The Head of Internal Audit Opinion for 2016/17;
- An overview of the Council's risk exposure and its overall system of internal control;
- The work undertaken by Internal Audit in 2016/17;
- Review of the outcomes of key internal audit reports; and
- An overview of the performance of Internal Audit.

2.2 This is a programmed, periodic report outlining the Head of Audit's opinion and the progress of internal audit and investigations functions, therefore, no decision is required on those section.

2.3 The Internal Audit Charter is a document setting how Internal Audit work with the organisation, as such this should be approved by the Audit Committee.

## **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. Head of Internal Audit Opinion**

4.1 This report gives a summary of the work carried out by Internal Audit in the financial year 2016/17 and the results of that work as reported in progress reports to Committee throughout the year and as set out in section 5 covering the period 1 January to 31 March 2017. From the work undertaken during the year, my overall opinion on the Council's system of internal control, governance and risk management is that:

4.2 Reasonable assurance can be given that there is a sound system of internal control, designed to meet the organisation's objectives and that controls are applied consistently.

4.3 Controls relating to key financial systems were overall concluded to be at a reasonable assurance level. Borne out by the Controls Assurance Monitoring work, there has been a positive direction of travel during the

year. The work has reflected on progress to address weaknesses in the bank reconciliation process. Management have also responded positively to issues raised in the more recent report on the processing of National-Non Domestic Rates (NNDR).

4.4 Internal Audit work on other systems has also concluded that an overall reasonable level of assurance. Only two limited reports were issued during the year. The report on Fire Safety, Asbestos and Legionella and the report on Contract Management.

4.5 The basis for the opinion considers not only the assurance level of each report for the year, but the relative materiality of the system assessed during the year. In 2015/16 the overall opinion was substantial. The actual level of assurance remains consistent, but the definitions has changed following the change in internal audit providers and a difference in the assurance terminology for reports.

4.6 Whilst direct comparison of the assurance levels is not quite as simplistic, a broad comparison is set out in the table below.

<b><u>Assurance Level (2015/16)</u></b>	<b><u>Assurance Level (2016/17)</u></b>	<b><u>Definition</u></b>
Full	Substantial	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Substantial	Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
Limited	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
None	None	Control processes are generally weak leaving the processes / systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / systems open to error or abuse.

## 5. Internal Audit Performance as at 31 March 2017

- 5.1 This report provides a progress update on the work of internal audit to the 31 March 2017.
- 5.2 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.
- 5.3 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. A summary of the position of the planned audits and current status is set out in the table below:

	<b>Audit Title</b>	<b>Scope</b>	<b>Audit Status</b>
1	Mortlake Crematorium	Probity review of financial management	Finalised – Substantial Assurance
2	Specific School Audit – Financial Governance	Review of financial management in a school following a management request	Finalised (Audit Opinion not applicable)
3	Review of school catering contract	Contract management review of the school catering contract	Finalised (Reasonable Assurance)
4	S106 Income/CIL	Review of MCIL arrangements and income/expenditure monitoring for S106	Finalised (Reasonable Assurance)

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	Finalised (Limited Assurance)
6	Care Homes	Review of monitoring arrangements for the Council's Care homes	Finalised (Reasonable assurance)
7	Assurance mapping	Development of assurance map for 2017/18.	Finalised (Audit opinion not applicable)
8	Contract Management	A review of the governance arrangements for six contracts	Finalised (Limited assurance)
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	Finalised. Risk classification is assigned to each area: Payroll - Medium risk; Accounts payable - Low risk; Accounts receivable - Medium Risk; Council tax - High risk; National Non-Domestic Rates (NNDR) - Medium risk; General ledger and Cash - High risk
10	Continuous auditing and monitoring Phase 2 (Key financial systems)		Finalised. Risk classification is assigned to each area: Payroll - Medium risk; Accounts payable - Low risk (no exceptions); Accounts receivable - Low risk; Council tax - High risk; National Non-Domestic Rates (NNDR) – High risk#; General ledger and Cash - Medium risk
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	Finalised (Substantial assurance)
12	Schools themed audits – Payroll and safe recruitment	Review of payroll and safe recruitment arrangements in 5 schools maintained by the Council	Finalised (Reasonable assurance overall)
13	Schools themed audits – Procurement	Review of procurement arrangements in 5 schools maintained by the Council	Finalised (Reasonable assurance overall)

14	Schools themed audits – Financial governance	Review of financial governance arrangements in 5 schools maintained by the Council	Finalised (Reasonable assurance overall)
15	Customer portal	Review of processes and controls in place over user access rights, project change management and the user experience for Customer Portal	Finalised (Reasonable assurance)
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	Finalised (Substantial assurance)
17	Cash Handling	Review of expenditure approval, reconciliations, reimbursements and cash security for the Greenford Business Service Centre	Finalised (Reasonable assurance)
18	Temporary Accommodation	Review of governance arrangements and spend in temporary accommodation	Draft report issued
19	Housing stock – Fire safety	Review of Fire Safety Policy implementation	Finalised (Reasonable assurance)
20	Leasehold Services – Capital Spend	Review of the effectiveness of recovery of costs from leaseholders	Finalised (Reasonable assurance)
21	Town Hall Redevelopment	Governance review of the Town Hall redevelopment project	Deferred to 2017/18 due to status of the project
22	Eligibility to work	Review of the recruitment processes and assessment of eligibility to work	Finalised (Reasonable assurance)
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.	Finalised (Reasonable assurance)
24	IT Risk diagnostic	Use of IT Risk Diagnostic to identify risk areas	Scoping meeting held, audit postponed to September 2017 due to ongoing changes in IT structure and transfer of the functions from Serco.
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.	Finalised (Reasonable assurance)

26	Complaints handling	Review of the Council's complaints handling procedure	Finalised (Reasonable assurance)
27	Expenses	Review of the expense procedures and payments for employees and Councillors; the procedures around declaration of interests completed by Councillors	Draft report issued

- 5.4 There has been one report issued with a Limited assurance opinion finalised in Q4 – the Contract management audit. Seven medium risk recommendations were raised.
- 5.5 This report identified areas where improvements could be made to the design and operation of these processes to strengthen the controls in place. For example, ensuring KPIs are still fit-for-purpose; ensuring contract management meetings are at an appropriate frequency and well attended; service credits/deductions are aligned to the contract, right to audit clauses are invoked appropriately for the contracts, improving awareness and usage of the contract management toolkit.
- 5.6 During the period we have completed our second phase of Continuous Auditing and Monitoring over the Council's key financial systems. The table below shows the systems covered, exceptions identified and an overall risk rating.

Scope area	Control tested	Controls with exceptions	Controls with design exceptions	Risk classification
Payroll	5	1 (20%)	1 (20%)	Medium
Accounts Receivable	3	0 (0%)	0 (0%)	No exceptions noted
Accounts Payable	4	0 (0%)	1 (25%)	Low
Council Tax	6	1 (16%)	1 (16%)	Medium
National Non-Domestic Rates (NNDR)	8	5 (63%)	3 (38%)	High
General ledger (bank reconciliations and suspense account reconciliations)	2	2 (100%)	1 (50%)	Medium

- 5.7 High risk rating has been assigned to National Non-Domestic Rates (NNDR). We noted medium risk findings related to discretionary rate reliefs, mandatory rate reliefs as well as a medium risk control design issue with regards to system limitations that do not allow to produce listings of new reliefs awarded within a specific period. We noted that the Council's Business Rate Manager has been on long-term sickness leave since late October 2016. This has created capacity constraints and we

noted a deterioration in the control environment. All recommendations were agreed and action plans are now in place to address the issues identified.

5.8 The general ledger report has reduced from high. As reported in February it was be noted that the High Risk opinion provided for the General Ledger and Cash section of the continuous audit monitoring report relates to bank reconciliations. The findings identified that there is an in-year unreconciled variance each month. As reported in February an action plan was in place and being monitored by management for bank reconciliation improvements. The second phase of the audit concluded above has confirmed that there has been an overall improvement in controls surrounding the preparation and authorisation of reconciliations.

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

<b>Audit Status</b>	<b>Number of reviews</b>	<b>Percentage Completion</b>
Finalised	23	92
Draft	2	8
Total	25	100
Deferred	2	N/A

5.10 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)

5.11 The key performance indicator of all reports being issued in draft by the end of March 2017 was achieved, despite the late start due to the new audit contract, the plan was delivered in full by the end of March 2017 (with the exception of the IT Risk Diagnostic review, which has been postponed due to the transfer of functions from the Serco contract and Town Hall redevelopment project review, which was postponed to the status of the project).

## **6. Follow Up of Recommendations**

6.1 A follow-up process is being developed and outstanding recommendations will be reported to the next Committee.

## **7 Internal Audit Charter**

- 7.1 An Internal Audit Charter has been produced for the Council. This sets out where Internal Audit sits within the Council and helps us to comply with the recent update to the Public Sector Internal Audit Standards (March 2017). The Charter is attached in appendix A.

## **8 Counter Fraud and Investigations Performance & Developments**

- 8.1 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.
- 8.2 Ealing Council is 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.

### **Enhanced Vetting (EV)**

- 8.3 Ealing Council has a risk assessed process of Enhanced Vetting for new recruits. This work is undertaken by the Investigation's team into both permanent and temporary posts and involves stringent checks to verify the validity of a candidate and their employment application.
- 8.4 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.
- 8.5 The outcomes of the vetting work for 2016/17 is that 32 cases either failed (appointment stopped) or prevented (candidate withdrew), representing nearly 6% of all cases reviewed. A further 6 cases resulted in referrals to other organisations of possible fraud against them (e.g. benefits; SPD). Full details of the work undertaken by the Employee Vetting service is set out in the table below.

**Table of 1/4/16 to 31/3/17 EV Case Assurance Profile - Cases Complete between 1 April 2016 and 31 March 2017.**

Case Status	Cross Council				
	Total	Temp	%	Perm	%
Pass	518	110	21	408	79
Fail	12	2		10	
Withdrawn	20	2		18	
Assignment Ended	5	5		-	-
<b>Total</b>	<b>555</b>	<b>119</b>	<b>22</b>	<b>436</b>	<b>78</b>
<b><u>Additional Outcomes</u></b>					
3 <sup>rd</sup> Party Referral	4	1	-	3	-
Agency compliance	2	2	-	-	-
<b>Total</b>	<b>6</b>	<b>3</b>		<b>3</b>	

- Third Party Fraud 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. These referrals are not necessarily attributable directly to the candidate, but have instigated a separate fraud investigation, for example, the actions of a partner or member of immediate family of the person being vetted.
- 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.

#### National Fraud Initiative (NFI) 2016/17

8.6 The current exercise uses data submitted in October 2016. The Council received 3,297 recommended matches in February 2017. The table below details the progress made on the key reports. The key reports are the reports used by the NFI team to initially assess the Council’s progress and are the reports deemed to be the most important based on previous exercise experience.

NFI Report	Recommended Matches	Initial Evaluation Commenced	Investigation Initiated	Matches Completed / Closed or Referred to DWP	Matches to Action

Housing Benefit	<b>147</b>	2	-	145	-
Payroll	<b>7</b>	-	-	5	2
Pension	<b>67</b>	-	-	-	67
Housing Tenancy	<b>5</b>	1	-	4	-
Right to Buy	<b>73</b>	-	-	73	-
Resident Parking Permits	<b>51</b>	-	-	-	51
Private Residential Care Homes	<b>13</b>	-	-	-	13
Duplicate records creditor	<b>597</b>	-	-	-	597
Personal Budgets to DWP Deceased	<b>1</b>	-	-	1	-

- The National Fraud Initiative 2014/15 exercise for the LB Ealing identified a total of £129k in fraud and error. Working is in progress on 2016/17 we will provide an update on work in future progress reports.
- Housing Benefit recommended matches have been reviewed by Audit & Investigation and referred to the DWP Fraud and Error Service for action.

## 9 Investigation team performance to 31 March 2017

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

Table showing A&I, Performance Indicators, 2016/17 to year-end

	2015/16 year- end	2016/17 target	2016/17 profile	<b>2016/17 actual</b>
<b>Intelligence</b>				
Number of new cases	435	550	550	<b>582</b>
Number of cases	236	375	375	<b>239</b>
Average time from receipt of referral to 'Accepted' and forwarded for investigation	21 days	16 days	N/a	<b>13 days</b>
<b>Investigation</b>				
Number of completed investigations	255	250	250	<b>247</b>
Number of cases where fraud	51	68	68	<b>48</b>
Number of sanctions applied (includes: Prosecution; Police caution; Disciplinary action; Tenancy application refused; Right To Buy	38	68	68	<b>38</b>
Number of council properties recovered (included above)	9	20	20	<b>5</b>
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	N/A	£75,000	£75,000	<b>£149,287</b>

9.2 The number of cases closed following an investigation to 31 March 2017 was 247. Of these the number where fraud was proved on the balance of probabilities was 48. The proved actual fraudulent loss incurred by the Council arising from those cases totals £373,523.

9.3 In addition to the actual loss, notional savings of £438,620 have also been identified, as detailed below:

**Right to Buy – Notional savings : £311,700.**

9.4 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 £103,900. 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.

- 9.5 The 3 Right to Buy applications refused as the result of investigation would therefore provide a notional saving of £311,700. This has also retained 3 properties in Council stock for those with a genuine need.

Council Tenancies : Notional Savings £126,000.

- 9.6 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.

- 9.7 The 5 council tenancies recovered and the 2 tenancy applications refused following investigation would therefore protecting 7 properties for those with a genuine need and providing a notional saving of £126,000.

Blue Badges : £920.

- 9.8 In the Annual Fraud Indicator 2011 the National Fraud Authority estimated a notional loss for a misused Blue Badge of £92. As such, the 10 Blue Badge cases have been proved, providing a notional saving of £920.

Proceeds of Crime Act : Received £102,287 with a further £37,600 income to the wider public purse.

- 9.10 The Proceeds of Crime Act (2002) legislation allows the Council to pursue directly from individuals the financial benefits of their criminal activity (for example, cash assets, property etc). This means that a court can award the Council either compensation (recovering actual financial losses) or, through confiscation, recover the benefit of their fraudulent activity (eg. Rental income from sub-letting a Council property). Court orders made under the Proceeds of Crime Act as the result of financial investigations for 2016/2017 total £149,287. This is made up of £74,087 awarded as compensation and £75,200 awarded as confiscation. Compensation will be returned to the council in full, whereas confiscation funds are split, with 50% paid to the Home Office and a maximum of 50% paid to the council (based on investigating authority 18.75%; prosecution 18.75%; enforcement 12.5%). It should be noted that although a court order has been made, this is not a guarantee that the money will be recovered from the individual by the court. POCA income can be difficult to fully recover, however, the team has managed to receive all income due representing £111,687 to Ealing and £37,600 to the Home Office.

## **10. Financial**

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

## **11. Legal**

11.1 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.

## **12. Value for Money**

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

## **13. Sustainability Impact Appraisal**

13.1 Not applicable.

## **14. Risk Management**

14.1 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.

## **15. Community Safety**

15.1 Not applicable.

## **16. Links to Strategic Objectives**

16.1 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'.

## **17. Equalities and Community Cohesion**

17.1 Not Applicable.

## **18. Staffing/Workforce and Accommodation implications**

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

## **19. Property and Assets**

19.1 Not applicable.

## **20. Any other implications**

20.1 None.

## **21. Timetable for Implementation**

21.1 Not applicable.

## 22. Appendices

22.1 Appendix A – Internal Audit Charter

## 19. Background Information

19.1 Details of internal audit reports are available to Members upon request from Mike Pinder, Head of Internal Audit & Investigations, [pinderm@ealing.gov.uk](mailto:pinderm@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	10.05.17	10.05.17	Throughout
Ross Brown	Director of Finance	05.05.17	05.05.17	Throughout
Cllr Yvonne Johnson	Portfolio Holder – Finance, Performance & Customer Services		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: Mike Pinder, Head of Audit & Investigations, ext 5792		