



Report for: INFORMATION
Item Number: 10

Contains Confidential or Exempt Information	No
Title	Head of Internal Audit 2017/8 Quarter 3 Internal Audit & Investigation Update Report
Responsible Officer	Ross Brown, Director of Finance Mike Pinder, Head of Audit & Investigations
Author	Mike Pinder, Head of Audit & Investigations PinderM@ealing.gov.uk
Portfolio	Cllr Yvonne Johnson - Finance, Performance and Customer Services
For Consideration By	Audit Committee
Date to be Considered	22 February 2018
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	Internal audit and investigations

Purpose of Report:
The attached report provides Audit Committee with an update on the work of Internal Audit & Investigations for Quarter 3, 1 October 2017 – 31 December 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 October 2017 – 31 December 2017.

2. Reason for Decision and Options Considered

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

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 2017/18 Plan will form the main input for the development of the 2017/18 opinion to Council.

4. Internal Audit Performance as at 31 December 2017

4.1 This report provides a progress update on the work of internal audit to 31 December 2017.

4.2 The 2017/18 Plan was approved by the Audit Committee in March 2017. 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 Executive Director Corporate Resources (Section 151 Officer) and the Director of Finance (Deputy Section 151 Officer) meets with the Head of Audit & Investigations and the Strategic Internal Audit Partner to discuss progress and emerging findings.

4.3 The table below explains the assurance levels applied to the finalised reports.

Assurance level	Definition
Substantial	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
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	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
No	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.

4.4 A summary of the position of the planned audits and current status is set out in the table below.

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
1	Workforce planning	Specialist review focusing on the resourcing implications of significant organisational change. Key risks to be addressed: <ul style="list-style-type: none"> - Inappropriate succession planning arrangements; - Operational capacity not matching business need; and - Retention and recruitment to specialist roles. 	Deferred to 2018/19. This project is to become advisory. The completion of this is now likely to be in 2018/19 to optimise the value.	
2	Review of Related Parties	Reviews of a selection of arms-length organisations based on a risk assessment exercise, to provide assurance on governance, financial management and performance monitoring	Draft report issued.	
3	Temporary workers/contractors	Processing, recording and monitoring of contractors; would include implementation of IR35	Fieldwork in progress.	
4	Continuous auditing and monitoring Phase 1 (Key financial systems)	Audit of key controls for six key systems: Accounts Payable, Accounts Receivable, NNDR, Council tax, Payroll and General Ledger	Finalised (Reasonable assurance, see table at 4.6 for additional information).	Q3
5	Continuous auditing and monitoring Phase 2 (Key financial systems)		Fieldwork in progress	
6	Data Protection	Readiness for 2018 legislation. Will be conducted across shared service	Draft report issued	
7	No recourse to public funds	Review of assessment and referral process, and budget monitoring processes.	Finalised (Limited Assurance).	Q3
8-12	Schools themed audits – Payroll and	Review of payroll and safe recruitment	The schools programme	

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
	safe recruitment	arrangements in 5 schools maintained by the Council	has been reviewed and the themed audits replaced with audits at individual schools.	
	Schools themed audits – Procurement	Review of procurement arrangements in 5 schools maintained by the Council	Of the 5 schools: • 3 Draft report stage. • 2 Terms of reference agreed, fieldwork scheduled	
	Schools themed audits – Financial governance	Review of financial governance arrangements in 5 schools maintained by the Council		
13	Safeguarding Adults Deprivation of liberty	Controls and processes relating to Deprivation of Liberty safeguards and the Council's statutory responsibility as a supervisory body	Fieldwork in progress.	
14	Direct payments	Review of both children and adults Direct Payments. To consider application, assessments and monitoring processes..	Finalised (Limited Assurance).	Q3
15	SEN Transport	Controls in place for managing and allocating resources and demand (Including transport)	Finalised (Limited Assurance).	Q3
16	Highways network assets (phase 2)	Extended follow up to the 16/17 highways network assets audit. To focus on systems for maintaining the records required to evidence any changes for valuation of highways network assets (the 16/17 audit focused on the systems developed by the Council to revalue Highways Network Assets in advance of the CIPFA change to ensure that the balance is complete, accurate and valid. Phase 2 to focus on 2016/17 work/updates and systems and controls to be used	Removed from the plan. CIPFA announced in March 2017 that they are no longer planning to introduce the Highways Network Assets code.	N/A

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
		going forward.		
17	Viridor Recycling contract	Review of contract for recycling services.	Finalised (Reasonable Assurance)	Q1
18	Licensing	To focus on the new property licensing scheme (Homes of Multiple Occupancy)	Terms of reference agreed, fieldwork scheduled	
19	Cyclical planned maintenance	Review of planned maintenance programme - Housing stock only.	Finalised (Substantial Assurance)	Q3
20	Electrical safety	Compliance with legislation review - Housing stock only.	Draft report issued.	
21	Town Hall redevelopment	Governance review of the Town Hall redevelopment project.	Deferred to 18/19.	
22	IT Risk diagnostic	Use of IT Risk Diagnostic to identify risk areas	Fieldwork in progress.	
23	IT Cyber	Looking at controls to help mitigate and respond to cyber attacks.	Terms of reference agreed, fieldwork scheduled	
24	IT Application – Frameworki	Looking at application controls, e.g. access; authorisations; reporting and processing for Frameworki.	Scoping meeting held, terms of reference in draft	
25	IT Application - Jadu	Looking at application controls (as above) for Jadu.	Scoping meeting held, terms of reference in draft	
26	Treasury Management	Review of treasury management processes for the investment portfolio and pension fund.	Finalised (Reasonable Assurance).	Q3
27	Trading Standards	To consider the processes in operation around visits and inspections undertaken by the service.	Draft report issued.	
28	Homecare	Review of processes to procure, commission and monitor providers.	Terms of reference agreed, fieldwork scheduled.	

4.5 During the period there were three reports issued with a Limited assurance opinion:

- No Recourse to Public Funds, Direct Payments - one high risk finding in relation to the robustness of the initial assessments process and fraud indicators.
- Special Educational Needs (SEN) Transport – three high risk recommendations in relation to eligibility risk assessments, annual risk assessments and expenditure monitoring.
- Direct Payments had two high risk findings in relation to managed account providers and service user expenditure monitoring.

4.6 During the period we have completed our first phase of Continuous Auditing and Monitoring over the Council's key financial systems for 2017/18. The table below shows the systems covered, exceptions identified and an overall risk rating

Scope area	Controls tested	Controls with exceptions	Controls with design exceptions	Risk classification
Payroll	5	2 (40%)	1 (20%)	Medium
Accounts Receivable	4	2 (50%)	1 (25%)	Low
Accounts Payable	4	1 (25%)	1 (25%)	Medium
Council Tax	8	5 (62%)	0 (0%)	Medium
National Non Domestic Rates	10	6 (60%)	1 (10%)	Medium
General ledger (bank reconciliations and suspense account reconciliations)	2	2 (100%)	0 (0%)	Medium

4.7 Officers have committed to keeping members up to date with the bank reconciliation, given it is a key control and as it was flagged as part of the 2016/17 audit. Since April the in-year figure have been successfully reconciled, and from October have been undertaken and reviewed on a monthly basis.

4.8 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	7	28
Draft report issued	7	28
Fieldwork in progress	4	16
Terms of reference agreed, fieldwork scheduled	5	20
Scoping meeting held, terms of reference in draft	2	8
Not started	0	0
Total	25	100
Original total	21	
Removed/on hold	3	
Additions	7	
Total	25	

4.9 The programme of themed audits for schools has been replaced with individual school audits. A programme of five audits has been set up. To date three (60%) have been completed to draft figures are included in the table above.

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 17/18 audits delivered (draft report issued)
- Quarter 2 – 35% of 17/18 audits delivered (draft report issued)
- Quarter 3 – 65% of 17/18 audits delivered (draft report issued)
- Quarter 4 – 100% of 17/18 audits delivered (draft report issued)

As at 31 December 2018 (end of Q3), a total of 54% of reports have been issued in draft or as final. Whilst this is 11% behind the target, there are a number of projects in progress and all of the remaining projects for the year has been scheduled in.

5. Follow Up of Recommendations

5.1 Follow-up of high recommendations has been completed. The results are summarised as:

Main Council audits

Number of Recommendations	12
Fully implemented	3
Partially implemented	9

Satisfactory progress has been made on the 9 recommendations. These will be monitored through to completion. If significant delays occur this will be reported to committee.

Schools Audit

Number of Recommendations	7
Implemented	5
Partially implemented	2

Satisfactory progress has been made on the 2 recommendations. These will be monitored through to completion. If significant delays occur this will be reported to committee.

6. Counter Fraud and Investigations Performance & Developments

6.1 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; and
- Council Tax Reduction fraud.

7. Pro-active Anti-Fraud Work

7.1 As verbally reported at the last committee, the team undertook activities on the fraud awareness week in November. A summary of the highlights from the week are set out below:

- 500 fraud contact cards issued to staff and residents
- eLearn fraud awareness training was launched
- Internal phishing awareness campaign was implemented
- Housing fraud drive was conducted

7.2 As a result of the housing fraud drive 85 properties were visited:

- 68 tenancies were verified;
- three strong leads for non-residency/possible sublet are being investigated and a notice to quit has been issued on the first;

- one case was referred to revenues for a single person discount fraud; and
- three further cases were referred to third party agencies for investigation.
- Revisits are being performed to any property that we were unable to verify (e.g. no one in).

7.3 Due to the leads and positive feedback received from the housing fraud drive, the fraud team are in the early stages of planning the next fraud drive for March 2018.

7.4 The Council Tax Single Person Discount 2017/18 National Fraud Initiative exercise is currently underway. This data match is designed to identify fraud and error in relation to single person discount. The data for this year's exercise will be uploaded by the 28 February 2018 and a summary of outcomes will be reported to future committees.

8. National Fraud Initiative

8.1 The current National Fraud Initiative (NFI) 2016/17 exercise is now reaching a conclusion. Highlights from the 2016/17 matches were:

- £29k in fraud and error; and
- One tenant surrendered the keys to their property and
- 400 blue badges have been cancelled.

9. Enhanced Vetting (EV)

9.1 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.

9.2 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.

9.3 The outcomes of the vetting work for between 1 April 2017 and 31 December 2017 is that 17 cases either failed or were prevented, representing nearly 4% of all cases reviewed. A further 8 cases resulted in referrals to other organisations. The full details of the work of the vetting service are set out in the table below.

Table summarising work on Enhanced Vetting, 1 April 2017 and 31 December 2017.

Case status	Cross Council		
	Temp	Perm	Total
Pass	112	305	419
Fail	3	3	6
Withdrawn	1	10	11
Assignment Ended*	7	-	7
Total	123	318	443
Additional Outcomes			
3 rd Party Referral#	1	7	8

*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.

#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.

9.4 Details can be found below of two cases identified during the process where the candidates failed to meet the standards required by vetting:

- Candidate A received an excellent reference from a source purporting to be a former employer. Verification of the reference revealed that it had been written by the candidate and fraudulently presented as a 3rd party.
- Candidate B inflated the qualification they had achieved. They also provided a false work history and failed to declare that they had been dismissed from their previous position.

10. Investigation team performance to 31 December 2017

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

Table showing A&I Performance Indicators, 2017/18 to December

	2016/17 outturn	2017/18 target	2017/18 profile	2017/18 actual
Intelligence				
Number of new cases started	582	550	412	359
Number of cases passed for	239	375	281	144

investigation				
Average time from receipt of referral to 'Accepted' and forwarded for investigation	13 days	16 days	N/a	14 days
Completed pro-active operations	New target	6	4	6
Investigation				
Number of completed investigations	247	250	187	160
Number of completed investigations (not referred on to another organisation or NFA)	New target	162	121	115
Number of cases of proven (balance of probabilities) economic crime	48	68	51	35
Number of sanctions applied (includes: Prosecution; Police caution; Disciplinary action; Tenancy application refused; RTB application rejected; Council property recovered; Council Tax Reduction Scheme penalty; Blue Badge warning)	38	68	51	27
Number of council properties recovered (included above)	5	20	15	14
Number of Proceeds of Crime Act cases closed	New target	14	10	3
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£148,287	£100,000	£75,000	£45,000
Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	New target	£50,000	£37,000	£16,368

10.2 The number of cases closed following an investigation up to 31 December 2017 was 115. Of these the number where fraud was proved on the balance of probabilities was 35. The actual fraudulent loss incurred by the Council arising from those cases totals £96,430.

10.3 In addition to the actual loss, notional savings of £356,900 have been identified, as detailed below:

Council Tenancies (Notional Savings £252,000)

10.4 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.

10.5 The 14 council tenancies recovered following investigation releases accommodation for those with a genuine need and providing a notional saving of £252,000.

Right to Buy refused (Notional Savings £104,900)

10.6 The prevention of a Right to Buy represents a notional saving of the maximum discount that could have been applied (£104,900). This also protects the assets for those with a genuine need.

Targets

10.7 As mentioned at the previous Committee, there is a need to review the targets. Linking to the fraud strategy and as reflecting in the proactive plan, priorities are to the proactive work, with the aim of preventing fraud before it happens

10.8 Areas such as tenancy have been reprioritised. Whilst the service shows to be behind the target of 15, it is important to consider that for the year to date the Council has achieved 14 recoveries already ahead of the annual total of 5 in 2016/17.

10.9 Other targets are largely in line with previous year's figures on a pro-rata basis. This further demonstrates a need to review targets.

11. Financial

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

12. Legal

12.1 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 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.

13. Value for Money

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

14. Sustainability Impact Appraisal

14.1 Not applicable.

15. Risk Management

15.1 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.

16. Community Safety

16.1 Not applicable.

17. Links to Strategic Objectives

17.1 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'.

18. Equalities and Community Cohesion

18.1 Not Applicable.

19. Staffing/Workforce and Accommodation implications

19.1 None.

20. Property and Assets

20.1 Not applicable.

21. Any other implications

21.1 None.

22. Timetable for Implementation

22.1 Not applicable.

23. Appendices

23.1 None.

24. Background Information

- 24.1 Details of internal audit reports are available to Members upon request from Mike Pinder, Head of Internal Audit & Investigations, 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	22/02/18		Throughout
Ross Brown	Director of Finance	21/02/18		Throughout
Cllr Yvonne Johnson	Portfolio Holder – Finance, Performance & Customer Services	22/02/18	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		