



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

<b>Contains Confidential or Exempt Information</b>	No
<b>Title</b>	Internal Audit & Investigation Update Report for Quarter One 2016
<b>Responsible Officer</b>	Steven Tinkler, Head of Audit & Investigations
<b>Author</b>	Steven Tinkler, Head of Audit & Investigations, ext 8571, Tinklers@ealing.gov.uk
<b>Portfolio</b>	CLlr Yvonne Johnson - Finance, Performance and Customer Services
<b>For Consideration By</b>	Audit Committee
<b>Date to be Considered</b>	28 July 2016
<b>Implementation Date if Not Called In</b>	N/A
<b>Affected Wards</b>	All
<b>Keywords/Index</b>	N/A

**Purpose of Report:**  
 The attached report provides the Audit Committee with an update on the work of Internal Audit & Investigations for the period 1 April – 30 June 2016.

**1. Recommendation**

1.1 It is recommended that the Audit Committee notes the performance of the Internal Audit & Investigations team and key issues arising during the period 1 April – 30 June 2016.

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

2.1 This is a programmed, periodic report outlining the progress of internal audit and investigations functions against the 2016/17 Quarter One targets, 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 30 June 2016**

- 4.1 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 emergent risks. 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.
- 4.2 The Shared Service in-house team have undertaken an audit of Mortlake Cemetery as part of the 2016/17 plan, as well as a follow-up exercise on all Priority 1 recommendations that were due in Quarter One (further details in Section 4.5 below).
- 4.3 The Committee will note that the procurement of the new Strategic Internal Audit Partner (SIAP), was completed in early May 2016. This resulted in the appointment of PriceWaterhouseCoopers as the new audit provider. Due to the appointment being made part way through the first quarter of 2016/17, PWC are in the early stages of delivering the planned audit activity. Details of PWC's progress for the delivery of the internal audit plan and any key findings will be reported to the next meeting of the Committee.
- 4.4 A key objective of the relationship between the Shared Service and PWC is to continue to develop and evolve the quality of the internal audit service delivered. This will be achieved through innovation and the use of technology to support the internal audit approach delivered. A summary of the current internal audit activity is outlined below:

#### *Assurance Mapping*

Assurance Mapping is a tool to ensure key risks are assured across an organisation – driving out gaps and overlaps in the assurance jigsaw and ensuring that audit work is aligned to the assurance requirement and audits focussed on the risks that matter.

PWC are currently creating a tailored audit universe for the Council and collating the information required to assess the control environment. 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.

#### *Key Financial Controls*

PWC will deliver a continuous audit monitoring (CAM) programme of key financial controls testing. This will consist of two testing phases per year and will focus on key controls in relation to accounts payable, accounts receivable, council tax, NNDR and housing benefits.

The CAM programme is designed to provide assurance over the key financial controls as well as act as a key indicator on the strength of the control environment across key systems and process in the Council.

#### *IT Risk Diagnostic*

The purpose of this review is to baseline the understanding of the IT risk environment and maturity of internal controls across the IT Audit Universe within the Council. This will be performed by carrying out a series of workshops to understand the processes and controls in place and perform an assessment of controls maturity against a set of standard criteria defined within the PWC IT Risk Diagnostic toolkit.

### **4.5 Follow Up of Recommendations**

4.5.1 As part of the process to ensure recommendations and agreed management actions are implemented in a timely manner, a detailed follow up review of Priority 1 recommendations made and due to be implemented in Quarter One has been completed. Each month, the recommendations due to be implemented in the previous month are subject to follow-up work to confirm implementation.

4.5.2 The tables below show the results of the follow up activity completed in respect of the Quarter One Priority 1 recommendations made and those outstanding from 2015/16:

<b>Non School Audits</b>	<b>P1</b>
No. of Recs raised in Quarter 1	0
Outstanding 15/16 Recs brought forward.	7
To Follow Up	7
Due to be Implemented by 30/06/2016	2
Fully Implemented	2

<b>School Audits</b>	<b>P1</b>
No. of Recs raised in Quarters 1	0
Outstanding 15/16 Recs brought forward.	1
Total Recommendations	1
Due to be Implemented by 30/06/16	1
Partially Implemented	1

4.5.3 Partially implemented recommendations will continue to be monitored and any instances of non-implementation reported to subsequent Audit Committees.

## **5. Counter Fraud and Investigations Performance & Developments**

5.1 As previously reported to the Committee, Internal Audit & Investigation services are delivered by the Internal Audit and Investigations Shared Service, which has brought together the Internal Audit and Investigation resources of the London Boroughs of Ealing, Hounslow and Brent.

5.2 The Shared Service, hosted by the London Borough of Ealing, enhances the Internal Audit and Investigation services delivered to the three boroughs, by bringing together a wealth of experience, improving overall service resilience, whilst also providing the opportunity to share best practice and harmonise counter fraud processes.

5.3 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.

5.4 A new online fraud reporting form has been developed and published on the Council's website, this will allow the public, contractors and staff to report any concerns they may have in a quick and efficient manner.

## 5.5 Enhanced Vetting (EV)

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

5.5.2 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.

Case study:

Candidate A was a temporary officer in a responsible and sensitive post. The candidate had an impressive CV suggesting a wealth of relevant experience. Unfortunately EV identified a number of issues including the candidate dishonestly misrepresenting their position in their previous work history.

1/4/15 to 31/3/16 EV Case Assurance Profile - Cases Complete			
Case Status	Cross Council		
	Total	Temp	Perm
Complete	98	25	73
Pass	94	23	71
Fail	2	1	1
3 <sup>rd</sup> Party Referral*	0	0	0
Withdrawn	1	0	1
Agency Fraud	-	-	-
Assignment Ended**	1	1	-

\*3<sup>rd</sup> 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.

## **5.6 National Fraud Initiative (NFI)**

5.6.1 The 2014/15 exercise has now concluded. The NFI exercise identified a total of £96,238 in fraud and error which is significantly lower than previous years. An explanation for this reduction can be attributed to the fact that Housing Benefit fraud transferred to the DWP Fraud & Error Service.

5.6.2 The 2016/17 exercise will start in October 2016. Stage 1 of this process will require the Council to upload their data to the NFI website.

## **5.7 Investigation team performance April to 30 June 2016**

5.7.1 Proved fraudulent gain/losses to 30 June 2016 totals £319,379.

5.7.2 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.

The 1 Right to Buy application refused as the result of investigations would therefore provide a notional saving of £103,900.

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 1 tenancy recovered following investigation would therefore provide a notional saving of £18,000.

The total of these notional savings for quarter 1 is £121,900.

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

## A&I, Performance Indicators, 2016/17 to June

	2015/16 year-end	2016/17 target	2016/17 profile	2016/17 actual
<b>Intelligence</b>				
Number of new cases started	435	550	137	<b>141</b>
Number of cases passed for investigation	236	375	93	<b>61</b>
Average time from receipt of referral to 'Accepted' and forwarded for investigation	21 days	16 days	N/a	<b>12 days</b>
<b>Investigation</b>				
Number of completed investigations	255	250	62	<b>65</b>
Number of cases where fraud established (balance of probabilities)	51	68	16	<b>6</b>
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	16	<b>6</b>
Number of council properties recovered (included above)	9	20	4	<b>1</b>
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	N/A	£75,000	£18,750	<b>£0</b>

### 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 Not applicable.

## **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 Past counter fraud papers are available upon request from Steven Tinkler, [tinklers@ealing.gov.uk](mailto:tinklers@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	18.07.16		Throughout
Ross Brown	Interim Director of Finance	15.07.16		Throughout
Cllr Yvonne Johnson	Portfolio Holder – Finance, Performance & Customer Services	18.07.16		

### 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: Steve Tinkler, Head of Audit & Investigations, ext 8571		