



Report for:
INFORMATION

Item Number: 9

Contains Confidential or Exempt Information	No
Title	Internal Audit & Investigations Report for Quarter One 2015/16
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Portfolio	Cllr Johnson – Finance, Performance & Customer Services
For Consideration By	Audit Committee
Date to be Considered	8 September 2015
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 the period 1 April 2015 - 30 June 2015.

1. Recommendation

- 1.1 It is recommended that the Audit Committee notes Internal Audit's performance and key issues arising during the period 1 April – 30 June 2015, and for the same period notes the performance and work of the Investigations Team (**Appendix A**).

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 2015/16 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 2015/16 Plan will form the main input for the development of the 2015/16 opinion to Council.

3.2 The Investigations Team undertakes investigations following allegations of criminal offences committed against the authority. Positive outcomes in respect of detection of fraud have been achieved. A policy of prosecution when sufficient evidence is available and it is in the public interest to do so has been maintained.

4. Internal Audit Performance as at 30 June 2015

4.1 The 2015/16 Plan was approved by the Audit Committee in March 2015 and comprised of 750 days. The plan presented was indicative and can be subject to revision during the year to take account of changing priorities and emergent risks. Audit Board monitors progress against the Plan and the S151 Officer and the Director of Finance meet with the Head of Audit & Investigations and Mazars. There have however been no changes to the Plan during quarter one.

4.2 The tables below sets out the current status in terms of the delivery of the plan along with the along with the assurance profile given.

2015/16 Audit Plan Status		
Status	Total	Actual %
Draft	13	16.25
Final	7	8.75
WIP	2	2.5
Overdue	-	-
Not Due	58	72.5
Total	80	100

2015/16 Audit Plan Assurance Profile		
Assurance Level	Total	Actual %
Full	-	-
Substantial	19	23.75
Limited	1	1.25
Nil Assurance	-	-
Follow up	-	-
To be Determined	60	75
Total	80	100

4.3 The current assurance opinions provided by Internal Audit are as follows:

Level	Definition
Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Substantial	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.
Nil	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 2015/16 Schools Internal Audit Plan

4.4.1 The Schools Internal Audit Plan comprises of the following reviews:

- 28 individual school audits probity audits following a standard audit program;
- 3 schools subject to a Post 16-19 Education Funding Agency Audit;
- A summary assurance review of all Schools who attract Post 16 – 19 Education Funding; and

- A detailed program of follow up reviews including all Priority 1 recommendations made and agreed.

4.4.2 The tables below provide details of the current status with regards to the delivery of the Schools Internal Audit Plan.

2015/16 Audit Plan Status - Schools		
Status	Total	Actual %
Draft	13	42
Final	5	16
WIP	-	-
Overdue	-	-
Not Due	13	42
Total	31	100

2015/16 Audit Plan Assurance Profile - Schools		
Assurance Level	Total	Actual %
Full	-	-
Substantial	16	51.6
Limited / Reasonable	2	6.4
Nil Assurance	-	-
Follow up	-	-
To be Determined	13	42
Total	31	100

4.5 Post 16 / 19 Education Funding Audits

4.5.1 As the Council assumed responsibility for commissioning and funding 'further education' services in 2010, there is a requirement to provide assurance that public money expended on Post 16 / 19 Education is used in accordance with the principles of regularity and propriety. Consequently, all 8 schools in the Borough are subject to Post 16 / 19 Education Funding Agency audit as part of a three year rolling program of reviews. The aim of the funding review is to substantiate learner existence / eligibility and to confirm that the submitted funding claimed is not overstated and is supported by appropriate documentation.

4.5.2 As part of the 2015/16 review programme, three schools have been audited however at this stage the reports are at draft stage. The provisional assurance opinions currently provided are, two schools have received 'Reasonable' Assurance with the remaining school receiving 'Substantial' Assurance. Discussions are currently ongoing with the two schools

concerned to obtain management responses to the recommendations made, prior to the reports being finalised.

4.6 Follow up of Recommendations

4.6.1 As part of the process to ensure recommendations and agreed management actions are implemented in a timely manner, a detailed follow up review of recommendations made and due to be implemented in quarter one has been completed. Audit Committee are asked to note that changes to the approach with regards to the follow up of recommendations have been made to ensure that the follow up process is more effective and completed in a more timely manner.

4.6.2 Previously, the follow up of recommendations were completed as part of the delivery of discrete follow up reviews, concentrating of the previous year's recommendations usually completed towards the end of the audit year. This approach however meant that there was a significant delay in obtaining the necessary assurances that Priority 1 and 2 recommendations had been implemented in a timely manner.

4.6.3 Going forwards the approach now being followed includes the maintenance of detailed lists of all recommendations (Priority 1, 2 and 3) in chronological order, defining the agreed month of agreed implementation. Each quarter, the recommendations due to be implemented in the previous quarter will be subject to detailed follow-up to confirm implementation. This approach will enhance the efficiency and effectiveness of the follow up process followed and the assurance that key risks are being effectively managed. Recommendations that have not been implemented via the due date will be reported to the subsequent meeting of the Board and where appropriate the Audit Committee.

4.6.4 The tables below show the results of the follow up activity completed in respect of the quarter 1 P1 & P2 recommendations made and those outstanding from 2014/15:

Non School Audits

	P1	P2	P3
No. of Recs raised in Quarter 1	-	4	2
Outstanding 2014/15 Recs brought forward.	10	1	-
To Follow Up	10	5	2
Due to be Implemented by Quarter 1	7	-	
Fully Implemented	4	-	
Partially Implemented	2	-	
Not Implemented	1	-	

School Audits

	P1	P2	P3
No. of Recs raised in Quarter 1	5	60	13
Outstanding 2014/15 Recs brought forward.	11	-	-
Total Recommendations	16	60	13
Due to be Implemented by Quarter 1	7	-	
Fully Implemented	7	-	
Partially Implemented	-	-	
Not Implemented	-	-	

4.6.5 The one Non School Audit recommendation that is outstanding, which was brought forward for 2014/15, relates to the following:

4.6.6 Network Management / Monitoring – this agreed recommendation had an original agreed implementation date of 31 December 2014. The current expected date for completion is by the end of Quarter 2 2015/16. The Problem Management system has not yet been implemented fully. SERCO, the third party supplier, have agreed to do this but have yet to allocate the task of maintaining the system to one of their staff based at Perceval House. It is expected that this will be achieved by the end of Q2. Longer term, with the departure of SERCO in 2017, ICT will develop an in-house Problem Management system as part of their wider IT service strategy. In the meantime, ICT are using the Adverse Incident system to manage all events.

5. Counter Fraud and Investigations Performance & Developments

5.1 The work performed by the Investigations Team has continued to provide positive outcomes in respect of the prevention and detection of fraud. The team continues to use innovative practices in order to prevent and increase the likelihood of fraud detection rates. The policy of prosecution for detected fraud rather than cautions or penalties continues to be maintained.

5.2 Performance against targets for the Investigations Team is set out in Appendix A.

5.3 Counter Fraud Developments

5.3.1 The Investigations team is aiming to improve recovery in respect to proven fraud by using the Proceeds of Crime Act (POCA). In June, three members of the team successfully completed the National Crime Agency, Financial Investigator accreditation training and are now accredited financial investigators. In addition two managers have also qualified as Senior Appropriate Officers.

5.3.2 This resource can be utilised by all internal departments within the Council for financial investigations under POCA. The Investigations team in line with the governments Assets Recovery Strategy will allow the Council to:

- Make greater use of the investigation of criminal assets in the fight against crime;
- Will recover money that has been made from crime or which is intended for use in crime;
- Prevent criminals and their associates from laundering the proceeds of crime;
- Detect and penalise such laundering where it occurs.
- Use the proceeds recovered for the benefit of the community.

5.3.3 In order to maintain the accreditation status obtained it is important that the Financial Investigators and the Authorising Officers complete a formal process of continuous professional development, which can only largely be achieved through practical use of the POCA powers obtained. It is therefore important that services within the council engage with the Investigations team to allow these requirements to be achieved.

6. Investigation

6.1 In order to promote an effective counter fraud culture, the Investigations team continues to perform proactive counter fraud drives and recently completed a Blue Badge proactive drive in partnership with the London Borough of Hounslow investigations team to combat blue badge fraud. The drive was performed in the Hounslow area where 122 badges were checked as part of the investigation with 15 identified as being misused. In respect of these 15, these have been referred for further investigation which may result in prosecution. It should also be noted that this exercise did identify blue badges issued by the London Borough of Ealing being misused.

6.2 Feedback from members of the public during this operation was positive and it was indicated that the public were keen for more frequent checking of blue badges and were grateful that Councils were taking this type of abuse seriously.

6.3 In addition to the above, two further cases have been authorised for prosecution between April and June. One case related to the misuse of a blue badge and another was in relation to Housing fraud.

6.4 To compensate for the transfer of benefit investigation to DWP, there has been an increased emphasis on new areas of work such as council tax reduction fraud. This has resulted in a 60% increase in new corporate cases being opened. For cases of this type the potential sanction is a prosecution or penalty of 50% of the overpayment or a fine.

7. Examples of cases investigated

7.1 A council tenant was sentenced to a total of 15 months imprisonment at Isleworth Crown Court, after previously pleading guilty to six offences involving housing and benefit fraud. The tenant failed to declare ownership of property, rental income and capital. The Council house has been successfully

recovered as part of the investigation. The total value of the fraudulent gain attributed to the tenant over the six-year period was in excess of £68,000.

- 7.2 A candidate for employment at the council stated in their application that they had achieved the qualification required for their role. Checks made by the Vetting Officer revealed that the candidate had failed the examination required to achieve the qualification and the conditional offer of employment was withdrawn.

8. National Fraud Initiative (NFI)

- 8.1 The current exercise used data relating to 2014. The Council received 2,801 recommended matches in February 2015. 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 key reports	Recommended Matches	Initial Evaluation Commenced	Investigation Initiated	Matches Completed / Closed	Matches to Action
Housing Benefit, NFI Id 2,13,14,14.1, 18,20,23	712	188	1	124	399
Payroll NFI id 66,70,73,80	33	-	-	8	25
Pension NFI Id 52,55,	49	16	-	15	18
Housing Tenancy NFI Id 101,103	14	2	1	11	-
Right to Buy NFI Id 156	97	-	-	97	-
Resident Parking Permits NFI Id 172.3	35	35	-	-	-
Private Residential Care Homes NFI Id 173	15	-	-	15	-
Duplicate records creditor NFI Id 707,708	512	-	-	498	14
Totals	1467	241	2	768	456

Commentary

- 8.2 The Housing Benefit recommended matches have been referred to the local DWP Housing Fraud and Error Service. Currently, the NFI do not offer a Council Tax Support data match, therefore Audit and Investigations have made the decision to utilise this report as a tool to prevent and detect Council Tax Support fraud within LB Ealing.
- 8.3 The Procure to Pay team have reviewed match ID 708 (duplicate creditor records), which only identifies amount and creditor id as a duplicate and not invoice number, as a result there were 473 matches. 60 recommended matches were reviewed and none of them were duplicate matches, they were all periodic payments that had been identified. This report has now been closed based upon the initial findings by the Procure to Pay team.
9. **Enhanced Vetting (EV)**
- 9.1 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.
- 9.2 In this period, reasons for failure to progress into a post have included Benefit and Council Tax fraud, false employment history and false qualifications.
- 9.3 The team are currently working to clear an unprecedented level of cases to provide a complete service across the council. This is reflected in the statistics provided below. They are also working with HR officers and the Recruitment Team to identify areas of weakness and improve the quality of record keeping with in the recruitment process.

Enhanced Vetting Statistics

1/4/15 to 30/6/15 EV Case Assurance Profile - Cases Complete			
Case Status	Cross Council		
	Total	Temp	Perm
Complete	241	134	107
Pass	192	89	103
Fail	3	-	3
3 rd Party Referral*	1	-	1
Withdrawn	2	1	1
Agency Fraud	-	-	-
Assignment Ended	44	44	-

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

10. Financial

10.1 All audit and 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 Not applicable.

19. Property and Assets

19.1 Not applicable.

20. Any other implications

20.1 None.

21. Consultation

21.1 Not applicable.

22. Timetable for Implementation

22.1 Not applicable.

23. Appendices

23.1 Appendix A: Investigations team performance.

24. Background Information

24.1 Past counter fraud papers are available upon request from Steven Tinkler, tinklers@ealing.gov.uk.

Consultation

Name of consultee	Department	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Internal				
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	07/08/15	10/08/15	Throughout
Maria Christofi	Director of Finance (Deputy s151 Officer)	07/08/15	10/08/15	Throughout
Mike Stringer	Head of Finance Transformation	07/08/15	10/08/15	Throughout
Cllr Yvonne Johnson	Portfolio Holder – Finance, Performance & Customer Services	12/08/15		

1. Report History

Decision type: For information		2. Urgency item? 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			

Appendix A – Investigations team performance April to June 2015

A&I, Performance Indicators, 2015/16 to June

	2014/15 year-end	2015/16 target	2015/16 profile	2015/16 actual
25. Intelligence				
Number of new cases started	557	550	137	132
Number of cases passed for investigation	357	375	93	76
Average time from receipt of referral to 'Accepted' and forwarded for investigation	16 days	16 days	N/A	28 days
26. Investigations				
Number of completed investigations	293	250	62	43
Number of cases where fraud established (balance of probabilities)	56	68	16	7
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)	43	68	16	4
Number of council properties recovered (included above)	17	20	4	1