



**Report for:
INFORMATION**

Item Number: 7

| | |
|--|---|
| Contains Confidential or Exempt Information | No |
| Title | Head of Internal Audit 2019/20 Quarters 1 and 2 Internal Audit & Investigation Update Report |
| Responsible Officer | Ross Brown, Chief Finance Officer Mike Pinder, Head of Audit & Investigations |
| Author | Mike Pinder, Head of Audit & Investigations PinderM@ealing.gov.uk |
| Portfolio | Cllr Bassam Mahfouz - Finance & Leisure |
| For Consideration By | Audit Committee |
| Date to be Considered | 27 November 2019 |
| 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 Quarters 1 and 2, 1 April 2019 – 30 September 2019.

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 April 2019 – 30 September 2019.

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 on those sections.

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 2019/20 Plan will form the main input for the development of the 2019/20 opinion to Council.

4. Internal Audit Performance as at 30 September 2019

4.1 This report provides a progress update on the 2019/20 internal audit plan and status of projects as at to 30 September 2019.

4.2 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. |

4.3 Seven reports were outstanding at the end of 2018/19, all of which have now been finalised. These reports are summarised below:

| | Audit Title | Scope | Audit Status | Final Report Issued | Final Report to Audit Committee |
|---|----------------------------------|---|----------------------------------|----------------------------|--|
| 1 | Financial Control | A review of departments financial activity to confirm compliance with core financial system and financial regulations. | Finalised (Reasonable Assurance) | Q4 | 27 November 2019 |
| 2 | Corporate Credit Cards | A review of the processes operated to monitor use of corporate credit cards. To include data analysis on spend. | Finalised (Nil Assurance) | Q4 | 27 November 2019 |
| 3 | Housing – Fire risks assessments | <p>A follow-up of reports from previous Health and Safety Audits.</p> <p>A review to confirm that processes are in place and robust to ensure that all Fire Risk Assessments happen on a timely basis and any actions required are implemented. Processes for residents reporting issues and how these are managed/escalated.</p> | Finalised (Limited Assurance) | Q4 | 27 November 2019 |
| 4 | ICT Application or Project | Linking in to the ICT team's application reviews to consider software application controls for a number of systems. | Finalised (Limited Assurance) | Q4 | 27 November 2019 |

| | | | | | |
|---|--------------------|---|-----------------------------------|----|------------------|
| 5 | Project Management | A review of project management processes including governance and procedures. This will include a review of key projects/stages to be agreed. E.g. Perceval House, Town Hall. | Finalised (Limited Assurance) | Q4 | 27 November 2019 |
| 6 | Libraries | A review of key processing following the insourcing of the service | Finalised (Reasonable Assurance) | Q4 | 27 November 2019 |
| 7 | Fostering | To review vetting process, with particular focus on renewals. | Finalised (Substantial Assurance) | Q4 | 27 November 2019 |

4.4 During the period there were seven 2018/19 final reports issued. Three of the final reports had a Limited Assurance opinion and one had nil assurance opinion, a summary of these three limited and one nil assurance reports are:

- Corporate Credit Cards: There were six high risk findings. This included significant non-compliance with the existing policy in respect of usage and adequacy of monitoring and authorisations by card holders. This also resulted in a need to strengthen the existing policy for issue, usage and a need to re-centralise monitoring arrangements. The review also identified delays in the recharging process, and non-compliance with the transparency requirements. All recommendations were agreed. Actions to address non-compliance are already in place, with the remaining recommendations to be fully addressed by the end of December.
- Housing Fire Risk Assessments (FRA): Internal Audit raised four high risk findings in relation to the records demonstrating completion of all fire risk assessments, monitoring of remedial actions identified during fire risk assessments, the completeness of the Property/Communal Area Listing for the purpose of performing and tracking fire risk assessments, and periodic reporting to key stakeholders within the Council regarding the completion of the FRA programme. All of the recommendations were agreed and management have made good progress in implementation of these recommendations, all of which are due to be implemented by the end of December 2019.
- ICT Application (Agresso): We raised two high risk findings in relation to access to interface files between Agresso and other systems and usage and monitoring of generic system admin accounts that provide high level of access to systems and

data. Management accepted all recommendations with implementation dates by February 2020.

- Project Management: There were two high risk findings in relation to Risk Management (a lack of a risk management strategy, non compliance with the Council's risk management framework and incomplete risk logs) and Benefits Management (there was no defined process to ensure that the planned benefits of the schemes were being captured, fully defined and monitored over time). There were also two medium risk findings in relation to Decision Making and Dependency Management.

4.5 The 2019/20 Plan was approved by the Audit Committee in March 2019. The plan presented was indicative and as such 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 Chief Finance Officer (Section 151 Officer) meets with the Head of Audit & Investigations to discuss progress and emerging findings.

4.6 The position against the 2019/20 internal plan is set out in the table below.

| | Audit Title & Department | Scope | Audit Status | Final Report Issued | Final Report to Audit Committee |
|---|-------------------------------------|--|----------------------------------|----------------------------|--|
| 1 | Future Ealing | To review delivery of a sample of projects. | Finalised (Reasonable Assurance) | Q2 | 27 November 2019 |
| 2 | Health and Safety | A review of the overarching governance arrangements. This will include a detailed follow-up review of fire risk and electrical safety assessment in the Housing arena. | Terms of reference | | |
| 3 | West London Alliance | The West London Alliance is run by Ealing, but operates to support West London Council's in delivery of a number of projects. | Draft report issued | | |
| 4 | Brexit - Advisory | Providing ongoing advice, challenge and support to management on oversight of Brexit issues as they emerge. | Work in progress | | |

| | | | | | |
|----|---|---|----------------------------------|----|------------------|
| 5 | Key Financial System (KFS) Payroll | Payroll and transactional HR (this will also include the iTrent system). | Work in progress | | |
| 6 | KFS General Ledger | General Ledger | Terms of reference | | |
| 7 | KFS Pensions | Pensions Administration | Work in progress | | |
| 8 | Cash Payments | Following the closure of cashiers in 2018/19, this review will look at how services are managing cash. | Draft report | | |
| 9 | Credit Cards | A follow-up of the 2018/19 audit. | Draft Report Issued | | |
| 10 | Project Management | A review of project management processes including governance and procedures. This will include a review of key projects/stages to be agreed. E.g. Delivery of 2500 affordable homes. | Terms of reference | | |
| 11 | Highways | A review of highway services and contract management. | Finalised (Reasonable Assurance) | Q2 | 27 November 2019 |
| 12 | Environmental Contract Renewals - Waste | A review of the transfer of plans for the transfer of assets and staff. | Finalised (Reasonable Assurance) | Q2 | 27 November 2019 |
| 13 | Housing Hubs | A review following the shift to neighbourhood offices which locally manage housing services. This will largely review the rents and repairs processes to confirm controls continue to operate following the change to hubs. | Not started | | |
| 14 | Licencing – Alcohol and Gambling | A review of the processes for issuing and annual renewals to ensure | Draft report issued | | |

| | | | | | |
|----|--|--|---------------------|--|--|
| | | all income due is collected. | | | |
| 15 | Housing Contract Management | A review of contract management arrangements. This will look at the monitoring arrangements for two areas, | Not started | | |
| 16 | Temporary Accommodation – Rents | A review to look at the arrangements for charging rent to ensure rent invoicing for new lets is done promptly. To consider arrangements for arrears. | Draft report issued | | |
| 17 | ICT Applications - Income Systems | Incomes systems (Civica and Ash) | Work in progress | | |
| 18 | ICT Applications – Social Care Systems | Social care systems (Mosaic and Synergy) | Draft report issued | | |
| 19 | Digital Programme Management | A review of the digital programme to confirm that it is running well and delivering to timetable. | Work in progress | | |
| 20 | Better Lives Programme | A revisit of this key programme to confirm it continues to operate. | Not started | | |
| 21 | Section 75 Agreement | A review of the joint arrangements with the Clinical Commissioning Group. This will include contracts, following the recent issue of new contracts to all providers. | Terms of reference | | |
| 22 | Ealing Services for Children with Additional Needs (ESCAN) | ESCAN is a joint initiative between Ealing PCT and the Council). This will look at direct payments. | Not started | | |

| | | | | | |
|----|-------------------|--|----------------------------------|----|------------------|
| 23 | Brokerage Team | A review of the work of the Brokerage Team to confirm arrangements in place are working as expected. | Finalised (Reasonable Assurance) | Q2 | 27 November 2019 |
| 24 | Schools programme | A review of the project management and oversight of the schools expansion programmes. | Finalised (Reasonable Assurance) | Q2 | 27 November 2019 |

4.7 During the period there were 5 2019/20 reports finalised. All of which received reasonable assurance.

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 | 5 | 21% |
| Draft report issued | 6 | 25% |
| Sub Total | 11 | 46% |
| Work in progress | 5 | 21% |
| Terms of Reference | 4 | 16.5% |
| Not Started | 4 | 16.5% |
| Total | 24 | 100% |
| Original total | 24 | |
| Cancelled | 0 | |
| Additions | 0 | |
| Total | 24 | |

4.8 Key performance indicators (KPIs) have been established to measure the delivery of the audit service across the shared service. These are how performance is measured 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 – 5% of 19/20 audits delivered (draft report issued)
- Quarter 2 – 35% of 19/20 audits delivered (draft report issued)
- Quarter 3 – 70% of 19/20 audits delivered (draft report issued)
- Quarter 4 – 100% of 19/20 audits delivered (draft report issued)

4.9 A total 46% of reports have been issued to draft and final. This is ahead of the target of 35% against the audit plan. The Audit & Investigation team are on target to complete all projects to draft by the end of March 2020.

5. Follow Up of Recommendations

5.1 Follow-up of high recommendations has been completed. High risk recommendations are those which are considered to have

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

5.2 The results of the follow-up work from all the audits on the plan are summarised as:

| Follow-up of high recommendations | | % |
|--|----|----------|
| Number of high risk findings | 27 | |
| Number of high risk findings completed | 26 | 96% |
| Number of high risk findings in progress | 1 | 4% |
| Not yet due | 0 | 0% |
| Not implemented | 0 | 0% |
| Awaiting responses | 0 | 0% |

5.3 The one outstanding recommendations is in progress and we will continue to monitor and report back to committee on its status.

5.4 There are currently no high risk follow ups for school audits outstanding.

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;
- Social care (direct payments); and
- Council Tax Reduction fraud.

6.2 Our work on reactive investigations has resulted in £314,958 notional savings, £100,928 identified actual savings (totalling £415,886) and 27 sanctions applied to Quarter 2.

7. Pro-active Anti-Fraud Work

7.1 The following proactive drives took place in Q1 2019/20 and the progress is reported below:

Direct Payments

A project working with Children and Adults on direct payments has commenced. This is reviewing cases where the clients have surplus funds. We have identified 4 surplus funds cases so far, whereby, the clients have failed to re-pay funds owed to LB Ealing.

1 client has repaid their outstanding balance of £3485.

A further two clients have now agreed / in the process of re-paying their outstanding debts value at £35,337

Housing Waiting List

Work continues on the Housing Waiting list work. A further 10 cases are being reviewed taking the total to 29 cases.

- 6 cases are ongoing.
- 15 cases – closed proved (including 3 removed from the register / the others are unable to bid for a property as their status has been downgraded)
- 5 cases have been closed – no further action.
- 3 cases closed – Not proved

National Fraud Initiative

The National Fraud Initiative (NFI) is an exercise run by the Cabinet Office. The data match is undertaken every 2 years, it matches electronic data within and between public and private sector bodies to prevent and detect fraud. The following outcomes have been identified to date:

- 19 people being removed from the Housing waiting list.
- 1 Council Tax reduction stopped (value £1811).
- 268 Blue badges have been cancelled.
- 1 Blue badge case also resulted in HB overpayment of £13,677.30 and Council Tax Reduction overpayment of £177.69. As the NFI match identified the individual was not residing within the borough.
- 1 property recovered – tenant was identified as residing in a care home.

Housing Tenancy

Work on the Racecourse Estate and Moreton and Rufford Tower tenancy drives has now been completed, a further Notice to Quit was issued as a result of the drive.

8. Enhanced Vetting (EV)

- 8.1 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.
- 8.2 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.
- 8.3 The outcomes of the vetting work for between 1 April 2019 and 30 September 2019 is that 25 cases either failed or were prevented, representing 9% of all cases reviewed. A further 6 cases resulted in referrals to other departments or 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 2019 and 30 September 2019.

| Case status | Cross Council | | |
|---------------------------------|---------------|------------|------------|
| | Temp | Perm | Total |
| Pass | 40 | 230 | 270 |
| Fail | 0 | 11 | 11 |
| Withdrawn | 3 | 11 | 14 |
| Assignment Ended* | 1 | - | 1 |
| Total | 44 | 252 | 296 |
| Additional Outcomes | | | |
| 3 rd Party Referral# | 2 | 4 | 6 |

*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.

Case Studies

Candidate A stated they had achieved a degree qualification but were unable to provide a copy of the certificate because of flooding and catastrophic weather conditions in the university town. A telephone call and subsequent correspondence confirmed that the candidate had failed their 1st year and did not complete the course.

Candidate B applying for a role dealing with vulnerable members of the community, provided an incomplete work history, omitting previous employment with Ealing. Checks revealed that the candidate had been sacked for gross misconduct in a role with a similar client group.

9. Investigation team performance to 30 September 2019

The table below details the performance of the team to 30 September 2019.

| | Target (based on average over the last three years) | Profile to Q2 | 2019/20 to Q2 |
|--|---|---------------|----------------|
| 10. Intelligence | | | |
| Number of new cases started | 528 | 264 | 303 |
| Number of cases passed for investigation | 216 | 108 | 141 |
| Average time from receipt of referral to 'Accepted' and forwarded for investigation | 14 days | N/a | 12 days |
| Completed pro-active operations | 4 | 2 | 3 |
| 11. Investigation | | | |
| Number of completed investigations | 340 | 170 | 314 |
| Number of completed investigations not referred on to another organisation or NFA | 158 | 79 | 108 |
| Number of cases of proven (balance of probabilities) economic crime | 58 | 29 | 39 |
| Number of sanctions applied (includes: Prosecution; Police caution; Disciplinary action; Tenancy application refused; Right-To-Buy application rejected; Council property recovered; Direct payment cancelled; Council Tax Reduction Scheme penalty; Blue Badge warning) | 47 | 23 | 27 |
| Number of council properties recovered (included in 'Sanctions' above) | 14 | 7 | 3 |
| Number of Proceeds of Crime Act cases closed | 2 | 1 | 2 |
| Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation | £64,000 | £32,000 | £0 |
| Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation | £12,000 | £6,000 | £0 |

9.1 As set out in the table above, the performance against targets is largely on track and overall sanctions exceed target. Exceptions are:

- Recovery of tenancies. Work is continuing and remains a priority. Proactive projects have been commenced to redress. As detailed below there has been significant success in the prevention of allocation of tenancies.
- Proceeds of crime. Work continues in this area, as indicated previously there are a limited number of cases which take time to progress.

9.2 The number of cases closed to 30 September 2019 following an investigation was 108. Of these the number of cases where fraud was proved, at least on balance of probabilities, was 39. The actual fraudulent loss incurred by the Council arising from those cases totals £100,928. This loss comprises benefit overpayments, Council Tax Reduction overpayments, cancelled Council Tax discounts and Direct Payment care payment.

Council Tax

9.3 Investigations have resulted in the ending of 4 Council Tax discounts, financial penalties of £300 in respect of a Council Tax Reduction offence.

Council tenancies

9.4 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.

9.5 12 tenancy applications have been refused following investigation, releasing accommodation to be allocated to those with a genuine need.

In addition 3 council properties have been recovered from unlawful tenants following investigation.

Together these results provide a notional saving of £270,000.

Direct Payment

9.6 5 Direct Payment care packages have been cancelled following investigation. In these cases there is no historical debt. The five cases represent a future annual saving totalling £44,958

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: Police and Criminal Evidence Act (PACE) 1984; Criminal Procedure and Investigations Act (CPIA) 1996;

Fraud Act 2006; Proceeds of Crime Act (PoCA) 2002; Regulation of Investigatory Powers Act (RIPA) 2000; and Human Rights Act 1998

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 None.

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 None.

23 Background Information

23.1 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: |
|---------------------|--|------------------------|---------------------------------------|---------------------------------|
| Ross Brown | Chief Finance Officer | 12/11/219 | | Throughout |
| Cllr Bassam Mahfouz | Portfolio Holder – Finance and Leisure | | | For reference only |

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 | | |