



**Report for:
INFORMATION**

Item Number:

Contains Confidential or Exempt Information	No
Title	Quarter 1 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	Clr Yvonne Johnson - Finance, Performance and Customer Services
For Consideration By	Audit Committee
Date to be Considered	27 th July 2017
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 the update on the work of Internal Audit & Investigations for Quarter 1, 1st April – 30th June 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 1st April – 30th June 2017.

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.

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 30 June 2017

4.1 This report provides a progress update on the work of internal audit to the 30 June 2017.

4.2 All audits on the 2016/17 plan have now been finalised. Two reports were outstanding at the end of 2016/17, these have now been finalised and are summarised below:

	Audit Title	Scope	Audit Status
1	Expenses	<ul style="list-style-type: none"> ○ Review of the expense procedures and payments for employees and Councillors; the procedures around declaration of interests completed by Councillors 	Finalised (Reasonable assurance).
2	Temporary Accommodation	<ul style="list-style-type: none"> ○ Review of governance arrangements and spend in temporary accommodation 	Finalised (Limited assurance).

4.3 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 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:

	Audit Title	Scope	Audit Status	Final Report *
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 	Scoping meeting held, terms of reference in draft.	
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	Scoping meeting held, terms of reference in draft.	
3	Temporary workers/ contractors	Processing, recording and monitoring of contractors; would include implementation of IR35	Not started	
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	Not started	
5	Continuous auditing and monitoring Phase 2 (Key financial systems)		Not started	
6	Data Protection	Readiness for 2018 legislation. Will be conducted across shared service	Scoping meeting held, terms of reference in draft.	
7	No recourse to public funds	Review of assessment and referral process, and budget monitoring processes.	Scoping meeting held, terms of reference in draft	

8	Schools themed audits – Payroll and safe recruitment	Review of payroll and safe recruitment arrangements in 5 schools maintained by the Council	A new programme of schools audits is being developed to replace this work.	
9	Schools themed audits – Procurement	Review of procurement arrangements in 5 schools maintained by the Council		
10	Schools themed audits – Financial governance	Review of financial governance arrangements in 5 schools maintained by the Council		
11	Safeguarding Adults Deprivation of liberty	Controls and processes relating to Deprivation of Liberty safeguards and the Council's statutory responsibility as a supervisory body	Scoping meeting held, terms of reference in draft.	
12	Direct payments	Review of both children and adults (to incorporate data analytics)	Not started	
13	SEND	Controls in place for managing and allocating resources and demand (Including transport)	Scoping meeting held, terms of reference in draft.	
14	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 going forward.	Removed from the plan. CIPFA announced in March 2017 that they are no longer planning to introduce the Highways Network Assets code, so will not be adopting the changes to the accounting policy for Highways. The audit resource will be re-allocated to a different audit.	
15	Viridor Recycling contract	Review of contract for recycling services	Finalised (Reasonable assurance). The final report was issued on 12 th June 2017.	Q1

16	Licensing	To focus on the new property licensing scheme (Homes of Multiple Occupancy)	Not started	
17	Cyclical planned maintenance	Review of planned maintenance programme - Housing stock only	ToR agreed, fieldwork scheduled	
18	Electrical safety	Compliance with legislation review - Housing stock only	Scoping meeting held, terms of reference in draft.	
19	Town Hall redevelopment	Governance review of the Town Hall redevelopment project.	Not started. Planning is being deferred due to the status of the project as the contract with the supplier has not yet been signed.	
20	IT Risk diagnostic	Use of IT Risk Diagnostic to identify risk areas	Scoping meeting held, ToR in draft. Audit postponed to September 2017 due to ongoing changes in IT structure and transfer of the functions from Serco.	
21	IT reviews – High risk areas	Individual reviews into high risk areas (eg. Cyber security) following the completion of the ICT risk diagnostics review.	Not started.	

* Final Report denotes the quarter that it was finalised and reported to Audit Committee.

4.4 During the period there has been one report issued with a Limited assurance opinion finalised in Q1, the temporary accommodation (from the 2016/17 audit plan). Two high risk findings have been identified:

- The first related to health and safety (H&S) checks. Prior to the acquisition of a property for the temporary accommodation portfolio, officers should complete health and safety (H&S) checks. Management stated that H&S checks have been performed at the time of the acquisition but evidence could not be located on files to support this.
- The second finding related to missing contracts. The Council should have a signed contract with the landlord or a letting agent for all temporary accommodation. The tenant and the Council should also have a signed agreement that outlines the terms and conditions of the tenancy. Management have agreed to address both these risks and set an implementation date of 30th September for all actions to be implemented.

- 4.5 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 of overall audit plan
Finalised	1	5%
Terms of reference agreed, fieldwork scheduled	1	5%
Scoping meeting held, terms of reference in draft	8	38%
Not started	10	48%
Removed, to be replaced by a different review	1	5%
Total	21	100%

- 4.6 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)

- 4.7 The delivery for quarter 1 is behind, but scoping work is progressing and we are confident that of delivering the plan for 17/18, which is ahead of the position from 16/17 and a number of projects have been scheduled.

5. Follow Up of Recommendations

- 5.1 A follow-up process is now in place. Seven high level recommendations were due for implementation prior to the end of June. Of these 4 had been totally completed and three had seen satisfactory progress.

6 Counter Fraud and Investigations Performance & Developments

Introduction

- 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;
 - Council Tax Reduction fraud.

- 6.2 This section sets out the performance of the investigations team between 1 April and 30 June 2017. Highlights are:
- Cases closed in the period with where fraud was proved on the balance of probabilities was 10.
 - Fraudulent loss identified from cases totals £21,561.
 - Notional savings of £36,000.
 - Proceeds of crime court orders £45,000.
 - 3 applications stopped or withdrawn following enhanced vetting.
- 6.3 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. Ealing Council has now provided the LCFH with 4 datasets as part of the proof of concept stage.

Enhanced Vetting (EV)

- 6.4 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.
- 6.5 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.

6.6 The outcomes of the vetting work for this period are set out in the table below.

Cases Complete between 1 April 2017 and 30 June 2017.

Case Status	Cross Council				
	Total	Temp	%	Perm	%
Pass	160	38	24	122	76
Fail	1	0		1	
Withdrawn	2	1		1	
Assignment Ended	1	1		-	-
Total	164	40		124	
<u>Additional Outcomes</u>					
3 rd Party Referral	2	0	-	2	-
Agency compliance			-	-	-
Total	2			2	

- 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

6.7 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 recommended matches on key reports (summarised in the table below). 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	147	2	-	145	-
Payroll	7	-	-	5	2
Pension	67	-	-	67	-
Housing Tenancy	5	-	-	5	-
Right to Buy	73	-	-	73	-
Resident Parking Permits	51	-	-	-	51
Private Residential Care Homes	13	-	-	13	-
Duplicate records creditor	597	1	-	51	546
Personal Budgets to DWP Deceased	1	-	-	1	-

- Housing Benefit recommended matches have been reviewed by Audit & Investigation and referred to the DWP Fraud and Error Service for action.

Investigation Team Performance

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

Table 6.8, A&I Performance Indicators, 2017/18 to June

A&I, Performance Indicators, 2017/18 to June

	2016/17 year-end	2017/18 target	2017/18 pro rata profile	2017/18 actual
Intelligence				
Number of new cases started	582	550	137	127
Number of cases passed for investigation	239	375	93	46
Average time from receipt of referral to 'Accepted' and forwarded for investigation	13 days	16 days	N/a	11 days
Completed pro-active operations	New target	6	1	0
Investigation				
Number of completed investigations	247	250	62	51
Number of completed investigations (not referred on to another organisation or NFA)	New target	162	40	35
Number of cases of proven (balance of probabilities) economic crime	48	68	17	10
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	17	7
Number of council properties recovered (included above)	5	20	5	2
Number of Proceeds of Crime Act cases closed	New target	14	3	1
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£148,287	£100,000	£25,000	£45,000
Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	New target	£50,000	£12,500	£0

6.9 The number of cases closed following an investigation up to 30 June 2017 was 35. Of these the number where fraud was proved on the balance of probabilities was 10. The actual fraudulent loss incurred by the Council arising from those cases totals £21,561.

6.10 In addition to the actual loss, notional savings of £36,000 have been identified, as detailed below:

Council Tenancies (Notional Savings £36,000)

6.11 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.

6.12 The 2 council tenancies recovered following investigation would therefore release accommodation for those with a genuine need and providing a notional saving of £36,000.

Proceeds of Crime Act: Awarded £45,000 with £16,875 due to Ealing and a further £28,125 income to the wider public purse.

6.13 The Proceeds of Crime Act (2002) 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 (e.g. rental income from sub-letting a Council property).

6.14 One confiscation order has been obtained under the Proceeds of Crime Act for £45,000. Payments made under a confiscation order are split, with 50% paid to the Home Office and a maximum of 50% paid to the council. On this occasion Ealing will receive £16,875, with an additional £28,125 benefit to the wider public purse. At the end of June payment of the order was awaited.

6.15 It should be noted that even when a court order has been made, there is no guarantee that the money will be recovered from the individual by the court.

7. Financial

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

- 8. Legal**
- 8.1 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.
- 9. Value for Money**
- 9.1 Value for money reviews have been identified within the audit plan.
- 10. Sustainability Impact Appraisal**
- 10.1 Not applicable.
- 11. Risk Management**
- 11.1 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.
- 12. Community Safety**
- 12.1 Not applicable.
- 13. Links to Strategic Objectives**
- 13.1 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'.
- 14. Equalities and Community Cohesion**
- 14.1 Not Applicable.
- 15. Staffing/Workforce and Accommodation implications**
- 15.1 None.
- 16. Property and Assets**
- 16.1 Not applicable.
- 17. Any other implications**
- 17.1 None.
- 18. Timetable for Implementation**
- 18.1 Not applicable.
- 19. Appendices**
- 19.1 None
- 20. Background Information**
- 20.1 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	11.07.17	12.07.17	Throughout
Ross Brown	Director of Finance	07.07.17	10.07.17	Throughout
Cllr Yvonne Johnson	Portfolio Holder – Finance, Performance & Customer Services	13.07.17	N/a	

Report History

Decision type: For information	Urgency item? 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		