



Report for: INFORMATION
Item Number:

Contains Confidential or Exempt Information	No
Title	Head of Internal Audit 2019/20 Quarter 3 Internal Audit & Investigation Update Report
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Portfolio	Cllr Bassam Mahfouz - Finance & Leisure
For Consideration By	Audit Committee
Date to be Considered	4 March 2020
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	Internal audit and investigations

<p>Purpose of Report: The attached report provides Audit Committee with an update on the work of Internal Audit & Investigations for Quarter 3, 1 October 2019 – 31 December 2019.</p>

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 2019 – 31 December 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 31 December 2019

4.1 This report provides a progress update on the 2019/20 internal audit plan and status of projects as at to 31 December 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 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.

4.4 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.	Draft report issued		
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.	Finalised (Reasonable Assurance)	Q3	4 March 2020
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).	Draft report issued		
6	KFS General Ledger	General Ledger	Work in progress		
7	KFS Pensions	Pensions Administration	Draft report issued		
8	Cash Payments	Following the closure of cashiers in	Finalised (Reasonable	Q3	4 March 2020

		2018/19, this review will look at how services are managing cash.	assurance)		
9	Credit Cards	A follow-up of the 2018/19 audit.	Finalised	Q3	4 March 2020
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.	Draft report issued		
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.	Terms of reference		
14	Licencing – Alcohol and Gambling	A review of the processes for issuing and annual renewals to ensure all income due is collected.	Finalised (Reasonable assurance)		4 March 2020
15	Housing Contract Management	A review of contract management arrangements. This will look at the monitoring arrangements for two areas,	Work in progress		
16	Temporary Accommodation – Rents	A review to look at the arrangements for charging rent to	Finalised (Limited assurance)	Q3	4 March 2020

		ensure rent invoicing for new lets is done promptly. To consider arrangements for arrears.			
17	ICT Applications - Income Systems	Incomes systems (Civica and Ash)	Finalised (Civica Limited Ash Limited)	Q3	4 March 2020
18	ICT Applications - Social Care Systems	Social care systems (Mosaic and Synergy)	Finalised (Mosaic Limited Synergy Reasonable)	Q3	4 March 2020
19	Digital Programme Management	A review of the digital programme to confirm that it is running well and delivering to timetable.	Draft report issued		
20	Better Lives Programme	A revisit of this key programme to confirm it continues to operate.	Terms of reference		
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.	Draft report issued		
22	Ealing Services for Children with Additional Needs (ESCAN)	Education payments for SEN pupils (including ESCAN)	Work in progress		
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 five 2019/20 reports finalised. Three of these received a limited assurance opinion as follows:

- Temporary Accommodation Rents: We identified one high risk finding in relation to arrears and there was no centralised holistic monitoring of debtors and roles and responsibilities were unclear. We also identified four medium risk findings in relation to suspense accounts, account credits, reconciliations and affordability assessments.
- Social Care Systems (Mosaic): We identified two high risk findings in relation to developer access to the production environment and monitoring of super user activity. We also identified two medium risk findings in relation to segregation of duties and disaster recovery plan and testing.
- Income Systems (Ash and Civica): We identified two high risk findings in relation to leaver's process and disaster recovery plan and testing (across both systems). We also identified four medium risk findings in relation to user access reviews and monitoring of user activity (across both systems), and back up notifications (Civica) and Interface Files Status Notifications (Ash).

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	12	50%
Draft report issued	6	25%
Sub Total	18	75%
Work in progress	4	17%
Terms of Reference	2	8%
Not Started	0	0
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 75% of reports have been issued to draft and final. This is ahead of the target of 70% 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 recommendation 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 committed against 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 £558,374 notional savings, £166,919 identified actual savings (totalling £725,293) and 38 sanctions applied to Quarter 3.

7. Pro-active Anti-Fraud Work

7.1 The following proactive drives took place between 1 April – 31 December 2019 and the progress is reported below:

Direct Payments

Work continues on the Children and Adults direct payments project, which is reviewing cases where clients have surplus funds. We have identified 5 surplus funds cases so far, whereby, the clients have failed to re-pay funds owed to LB Ealing.

2 clients have repaid their outstanding balances totalling £10,575.

1 client is in the process of re-paying their outstanding debts valued at £18,357.

Housing Waiting List

Work continues on the Housing Waiting list work. A further 5 cases are being reviewed taking the total to 34 cases.

- 7 cases are ongoing.
- 20 cases – closed proved (including 7 removed from the register / the others are unable to bid for a property as their status has been downgraded).
- 4 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.
- 2 Council Tax reductions stopped (total value £6,517).
- 276 Blue badges have been cancelled.
- 1 Blue badge case also resulted in identification of an HB overpayment of £13,677.30 and Council Tax Reduction overpayment of £177.69.
- 1 property recovered.

Housing Tenancy

The team conducted a further tenancy drive in November. Work has been undertaken to follow-up on leads. The status of this work is updated below:

- 143 properties visited
- 96 properties successfully verified
- 47 re-visits required (due to tenant not been available)

In addition, a further property has been recovered from Rufford Tower tenancy drive which has now concluded.

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 31 December 2019 is that 34 cases either failed or were prevented, representing 8% of all cases reviewed. A further 10 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 31 December 2019.

Case status	Cross Council		
	Temp	Perm	Total
Pass	68	343	410
Fail	2	14	16
Withdrawn	6	12	18
Assignment Ended*	7	2	9
Total	83	370	453
Additional Outcomes			
3 rd Party Referral#	2	8	10

*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. Investigation team performance to 31 December 2019

The table below details the performance of the team to 31 December 2019.

	Target	Profile to Q3	2019/20 to Q3
1. Intelligence			
Number of new cases started	528	396	411
Number of cases passed for investigation	216	162	154
Average time from receipt of referral to 'Accepted' and forwarded for investigation	14 days	N/a	12 days
Completed pro-active operations	4	3	3
2. Investigation			
Number of completed investigations	340	255	444
Number of completed investigations not referred on to another organisation or NFA	158	118	146
Number of cases of proven (balance of probabilities) economic crime	58	43	59
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	35	38
Number of council properties recovered (included in 'Sanctions' above)	14	10	5
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	£48,000	£0
Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£12,000	£9,000	£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 up to 31 December 2019 following an investigation was 146. Of these the number of cases where fraud was proved, at least on balance of probabilities, was 59. The actual fraudulent loss incurred by the Council arising from those cases totals £166,919. This loss comprises theft, benefit overpayments, Council Tax Reduction overpayments, cancelled Council Tax discounts and Direct Payment care payments.

Council Tax

- 9.3 Investigations have resulted in the ending of 5 Council Tax discounts, and a financial penalty 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 17 tenancy applications have been refused following investigation, releasing accommodation for allocation to those with a genuine need.

1 Right To Buy application has been refused following investigation, preventing the loss of a council asset at a fraction of its actual value. The maximum discount currently applied in London is £110,500.

In addition 5 council properties have been recovered from unlawful tenants following investigation.

Together these results provide a notional saving of £506,500.

Direct Payment

- 9.6 7 Direct Payment care packages have been cancelled following investigation. In these cases there is no historical debt. The cases represent a future annual saving totalling £51,874.

- 9.7 In addition, £80,000 has been recovered from one claimant who had falsified information provided to support the care being received. The case is yet to concluded.

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	13/2/2020	13/2/2020	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		