



Report for: INFORMATION
Item Number: 7

Contains Confidential or Exempt Information	No
Title	Head of Internal Audit 2017/8 Quarter 4 Internal Audit & Investigation Update Report
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Portfolio	Cllr Bassam Mahfouz - Finance & Leisure
For Consideration By	Audit Committee
Date to be Considered	30 May 2018
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 Head of Internal Audit Report and Opinion on the Internal Audit work completed in 2017/18 and incorporates an update on the work of Internal Audit & Investigations for Quarter 4, 1 January 2018 – 31 March 2018.

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 January 2018 – 31 March 2018.
- Note the Head of Internal Audit Annual Opinion.
- Note that there are no changes to the Internal Audit Charter.

2. Reason for Decision and Options Considered

2.1 The Public Sector Internal Audit Standards require that the Head of Internal Audit (for the Council it is the Head of Audit and Investigations) presents an annual report to an Authority's Audit Committee. This is reflected in the terms of reference of the Committee. The report provides Members of the Audit Committee with:

- The Head of Internal Audit Opinion for 2017/18;
- An overview of the Council's risk exposure and its overall system of internal control;
- The work undertaken by Internal Audit in 2017/18;
- Review of the outcomes of key internal audit reports; and
- An overview of the performance of Internal Audit.

2.2 This is a programmed, periodic report outlining the Head of Audit's opinion and the progress of internal audit and investigations functions, therefore, no decision is required on those sections.

2.3 The Internal Audit Charter is a document setting how Internal Audit work with the organisation, as such this should be approved by the Audit Committee. A revised Internal Audit Charter was presented and agreed by Audit Committee in May 2017, this document has been reviewed and no changes have been considered necessary.

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. Head of Internal Audit Opinion

4.1 This report gives a summary of the work carried out by Internal Audit in the financial year 2017/18 and the results of that work as reported in progress reports to Committee throughout the year and as set out in section 5 covering the period 1 January to 31 March 2018. From the work undertaken during the year, my overall opinion on the Council's system of internal control, governance and risk management is that:

4.2 Reasonable assurance can be given that there is a sound system of internal control, designed to meet the organisation's objectives and that controls are applied consistently. Reasonable assurance is a positive level of assurance and means that there is a sound system of internal control, although there are

weaknesses, which put some of the client's objectives at risk. Full details of assurance levels are set out in the table at 5.3.

- 4.3 Controls relating to key financial systems were overall concluded to be at a reasonable assurance level. Borne out by the Controls Assurance Monitoring work, which is the internal audit work undertaken on the core financial systems including Accounts Payable, Accounts Receivable, NNDR, Council tax, Payroll and General Ledger, where there has been a positive direction of travel during the year. There were no high risk recommendations made.
- 4.4 Internal Audit work on other systems (excluding schools) has also concluded that an overall reasonable level of assurance. This is based on a consideration of the findings of all of the internal audit projects and relative materiality completed and reported in table 5.4. During the period there were six limited assurance reports finalised, being: Review of Related Parties; No Recourse to Public Funds; Direct Payments; Electrical Safety; and Special Educational Needs Transport. These reports were reported to the committee during 2017/18 (including section 5 below).
- 4.5 Follow-ups on progress on implementation has identified that overall there has been satisfactory progress. Further work is required to improve the number fully implemented by their due date.
- 4.6 The basis for the opinion considers not only the assurance level of each report for the year, but the relative materiality of the system assessed during the year. In 2016/17 the overall opinion was also reasonable.
- 4.7 Details of the assurance levels are set out in the table at 5.3 below.

5. Internal Audit Performance as at 31 March 2018

- 5.1 This report provides a progress update on the 2017/18 internal audit plan and status of projects as at to 31 March 2018.
- 5.2 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 Executive Director Corporate Resources (Section 151 Officer) and the Director of Finance (Deputy Section 151 Officer) meets with the Head of Audit & Investigations to discuss progress and emerging findings.
- 5.3 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.

Assurance level	Definition
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.

5.4 The position against the 2017/18 internal plan is set out in the table below.

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
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. 	This audit was deferred to 2018/19 to optimise the value in linking to the work being undertaken by the Council in this area.	
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	Finalised (Limited Assurance).	Q4
3	Temporary workers/contractors	Processing, recording and monitoring of contractors; would include implementation of IR35	Finalised (Reasonable assurance).	Q4

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
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	Finalised (Reasonable assurance), see table at 4.6 for additional information).	Q3
5	Continuous auditing and monitoring Phase 2 (Key financial systems)		Finalised (Reasonable assurance, see table 4.6 for additional information).	Q4
6	Data Protection	Readiness for 2018 legislation. Will be conducted across shared service	Draft report issued	
7	No recourse to public funds	Review of assessment and referral process, and budget monitoring processes.	Finalised (Limited Assurance).	Q3
8-12	Schools themed audits – Payroll and safe recruitment	Review of payroll and safe recruitment arrangements in 5 schools maintained by the Council	The schools programme has been reviewed and the themed audits replaced with audits at individual schools. Of the 5 schools: 1) Tudor Primary – final report issued (reasonable assurance) Q4 2) Dormers Wells Infants & Nursery – final report issued (nil assurance) Q4 3) Holy Family Catholic Primary – Draft issued 4) John Perryn Primary – Draft issued 5) Drayton Green Primary – Draft issued	
	Schools themed audits – Procurement	Review of procurement arrangements in 5 schools maintained by the Council		
	Schools themed audits – Financial governance	Review of financial governance arrangements in 5 schools maintained by the Council		
13	Safeguarding Adults Deprivation of liberty	Controls and processes relating to Deprivation of Liberty safeguards and the Council's statutory responsibility as a supervisory body	Draft report issued	
14	Direct payments	Review of both children and adults	Finalised (Limited Assurance).	Q3

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
		Direct Payments. To consider application, assessments and monitoring processes..		
15	SEN Transport	Controls in place for managing and allocating resources and demand (Including transport)	Finalised (Limited Assurance).	Q3
16	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.	N/A
17	Viridor Recycling contract	Review of contract for recycling services.	Finalised (Reasonable Assurance)	Q1
18	Licensing	To focus on the new property licensing scheme (Homes of Multiple Occupancy)	Finalised (Limited Assurance).	Q4
19	Cyclical planned maintenance	Review of planned maintenance programme - Housing stock only.	Finalised (Substantial Assurance)	Q3
20	Electrical safety	Compliance with legislation review - Housing stock only.	Finalised (Limited Assurance)	Q4
21	Town Hall redevelopment	Governance review of the Town Hall redevelopment project.	This audit has been deferred until 2018/19 to reflect revisions to the Town Hall redevelopment plan.	
22	IT Risk diagnostic	Use of IT Risk Diagnostic to identify	Finalised	Q4

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
		risk areas		
23	IT Cyber	Looking at controls to help mitigate and respond to cyber attacks.	Draft report issued	
24	IT Application – Frameworki	Looking at application controls, e.g. access; authorisations; reporting and processing for Frameworki.	Draft Report Issued	
25	IT Application - Jadu	Looking at application controls (as above) for Jadu.	Draft Report Issued	
26	Treasury Management	Review of treasury management processes for the investment portfolio and pension fund.	Finalised (Reasonable Assurance).	Q3
27	Trading Standards	To consider the processes in operation around visits and inspections undertaken by the service.	Finalised (Reasonable Assurance).	Q4
28	Homecare	Review of processes to procure, commission and monitor providers.	Draft report issued	

5.5 During the period there were six final report issued. Three of the final reports had a Limited Assurance opinion, a summary of these three limited assurance reports is provided:

- Licensing (Homes of Multiple Occupation), this included high risks in income targets and confirmation of compliance with relevant standards and legislation.
- Review of Related Parties, this included three high risk recommendations relating to governance arrangements, business planning and a gateway review process.
- Electrical Safety, this included two high risk recommendations relating to performing of checks within the recommended 5 yearly intervals and provided an audit trails to evidence these.

5.6 The programme of themed audits for schools has been replaced with individual school audits. As individual entities, these do not form part of the HIA opinion.

A programme of five audits has been set up. All five (100%) have been completed to at least draft report and are included in the table above

5.7 During the period officers have completed the second phase of Continuous Auditing and Monitoring over the Council's key financial systems for 2017/18. The table below shows the systems covered, an overall risk rating for period 1 and 2. The trend shows difference between periods and as shown an indication of overall improvement.

Scope area	Risk classification# (period 2)	Risk classification# (period 1)	Trend
Payroll	Low	Medium	↑
Accounts Payable	Low	Medium	↑
Accounts Receivable	Low	Low	↔
Council Tax	Medium	Medium	↔
National Non Domestic Rates	Medium	Medium	↔
General ledger (bank reconciliations and suspense account reconciliations)	Low	Medium	↑

The risk classifications are:

High	<p>The internal audit controls work identified one or more high risk recommendations.</p> <p>A high risk finding is categorised as one that could have a:</p> <ul style="list-style-type: none"> • 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.
Medium	<p>The internal audit controls work identified one or more medium level recommendations.</p> <p>A medium risk finding is categorised as one that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the

	organisation.
Low	<p>The internal audit work identified only minor controls issues.</p> <p>A low risk finding is categorised as one that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation’s operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.

5.8 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	16	64%
Draft report issued	9	36%
Total	25	100
Original total	21	
Removed/on hold	3	
Additions	7	
Total	25	

5.9 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 – 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)

5.10 Performance to complete 100% of draft reports in 17/18 has been met once the deferrals have been taken into account.

6. Follow Up of Recommendations

6.1 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.

The results of the follow-up work are summarised as:

Main Council audits

Number of Recommendations	14
Fully implemented	3
Partially implemented	11

6.2 Satisfactory progress has been made on the 11 recommendations. These will be monitored through to completion. If significant delays occur this will be reported to committee.

Schools Audit

Number of Recommendations	7
Implemented	5
Partially implemented	2

6.3 Satisfactory progress has been made on the 2 recommendations. These will be monitored through to completion. If significant delays occur this will be reported to committee.

7. Internal Audit Charter

7.1 An Internal Audit Charter has been produced for the Council and agreed by the Audit Committee in May 2017 a copy is available from the Committee webpage or link: [Internal Audit Charter](#). The charter sets out where Internal Audit sits within the Council and helps us to comply with the recent update to the Public Sector Internal Audit Standards (March 2017). No changes are considered necessary to the charter at this time.

8. Counter Fraud and Investigations Performance & Developments

8.1 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; and
- Council Tax Reduction fraud.

8.2 During the year, highlights include the completion of seven proactive projects. These have helped increase fraud awareness and the results such as recovery of tenancies are also starting to be felt with two notice to quits issued on properties identified from these projects. Enhanced vetting has continued to protect the Council with 29 people failing, withdrawing or ending assignments.

8.3 Our work on reactive investigations has resulted in notional and actual savings of £801,156 and a total of 35 sanctions during the year. Significantly, this includes the recovery of 18 properties, which can now be allocated to those with a genuine need.

9. Pro-active Anti-Fraud Work

9.1 The table below details the proactive drives that have taken place throughout 2017/18.

1. Housing tenancy days x 2	5. Phishing exercise
2. Fraud eLearn relaunch	6. Grants team fraud awareness training
3. Fraud Roadshow	7. National Fraud Initiative
4. ID Scanner	8. Support to the London Counter Fraud Hub (ongoing).

9.2 The following provides an update on the project work undertaken since the last Committee report:

9.3 The team conducted a second tenancy drive in March. As a result of the housing fraud drive 108 properties were visited:

- 69 tenancies were verified;
- one strong lead for non-residency is being investigated
- one case was referred to the Department for Work and Pensions for benefit related matters.
- 36 revisits are being performed to any property that we were unable to verify (e.g. no one in).

9.4 Work continues to follow-up/investigations cases from the first tenancy drive and two notice to quits have been issued.

9.5 The Council Tax Single Person Discount 2017/18 National Fraud Initiative exercise is currently underway. This data match is designed to identify fraud

and error in relation to single person discount. The data for this year's exercise has been uploaded and the matches are now being reviewed. A summary of outcomes will be reported to future committees.

9.6 The council has successfully implemented a new ID Scanner. The system will fully authenticate identity documents and will assist in the fight against fraud by preventing fraudulent applications entering the system.

9.7 The team has continued to provide support to the London Counter Fraud Hub.

10. Enhanced Vetting (EV)

10.1 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.

10.2 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.

10.3 The outcomes of the vetting work for between 1 April 2017 and 31 March 2018 is that 22 cases either failed or were prevented, representing nearly 4% of all cases reviewed. A further 8 cases resulted in referrals to other 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 2017 and 31 March 2018.

Case status	Cross Council		
	Temp	Perm	Total
Pass	149	380	529
Fail	3	6	9
Withdrawn	1	12	13
Assignment Ended*	7	-	7
Total	160	398	558
Additional Outcomes			
3 rd Party Referral#	1	7	8

*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.

Vetting Case Studies

10.4 An examples of a case which failed the enhanced vetting work:

- Candidate A provided an excellent reference covering 10 years service with one company. Verification of the reference revealed that it had been written by his partner. The reference was significantly inaccurate with regards to the candidates work history and responsibilities.

11. Investigation team performance to 31 March 2018

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

Table showing A&I Performance Indicators, 2017/18 to year-end

	2016/17 outturn	2017/18 target	2017/18 year-end
Number of new cases started	582	550	469
Number of cases passed for investigation	239	375	191
Average time from receipt of referral to ‘Accepted’ and forwarded for investigation	13 days	16 days	18 days
Completed pro-active operations	New target	6	7
Number of completed investigations	247	250	259
Number of completed investigations (not referred on to another organisation or NFA)	New target	162	153
Number of cases of proven (balance of probabilities) economic crime	48	68	54
Number of sanctions applied (includes: Prosecution; Police caution; Disciplinary action; Tenancy application refused; RTB application rejected; Council property recovered; Council Tax Reduction Scheme penalty; Blue Badge warning)	38	68	35
Number of council properties recovered (included above)	5	20	18
Number of Proceeds of Crime	New target	14	4

Act cases closed			
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£148,287	£100,000	£45,000
Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	New target	£50,000	£16,368

11.2 The number of cases closed following an investigation up to 31 March 2018 was 259. Of these the number where fraud was proved on the balance of probabilities was 54. The actual fraudulent loss incurred by the Council arising from those cases totals £249,356.

11.3 In addition to the actual loss, notional savings of £551,800 have been identified, as detailed below:

Council Tenancies (Notional Savings £342,000)

11.4 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.

11.5 The 18 council tenancies recovered and 1 tenancy application refused following investigation releases accommodation for those with a genuine need and providing a notional saving of £324,000.

Right to Buy refused (Notional Savings £209,800)

11.7 The prevention of 2 Right to Buy applications represents a notional saving of £209,800. The maximum discount that could have been applied (£104,900). This also protects the assets for those with a genuine need.

Investigations Case Study

11.6 An example of a recent successful high profile prosecution. The investigation team identified an Ealing property on an online rental website offering rental of a one bedroom flat. Investigation ensued and confirmed that the tenant was subletting the property for three times what he paid to the council in rent. A successful prosecution ensued and the tenant was ordered to pay an unlawful profit order of £1,901 plus £1,750 in costs. This case attracted media attention, which it is hoped will also act to deter others from subletting.

Targets

11.8 As mentioned at the previous Committee, there is a need to review the targets. Linking to the fraud strategy and as reflecting in the proactive plan, priorities are to the proactive work, with the aim of preventing fraud before it happens

11.9 Areas such as tenancy have been reprioritised. Whilst the service did not achieve the target of 20, it is important to consider that for the year the Council has achieved 18 recoveries exceeding the annual total of 5 achieved in 2016/17.

11.10 As a basis for future targets, it being proposed that we utilised the 2017/18 outcomes.

12. Financial

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

13. Legal

13.1 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 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.

14. Value for Money

14.1 Value for money reviews have been identified within the audit plan.

15. Sustainability Impact Appraisal

15.1 Not applicable.

16. Risk Management

16.1 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.

17 Community Safety

17.1 Not applicable.

18 Links to Strategic Objectives

18.1 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'.

19 Equalities and Community Cohesion

19.1 Not Applicable.

20 Staffing/Workforce and Accommodation implications

20.1 None.

21 Property and Assets

21.1 Not applicable.

22 Any other implications

22.1 None.

23 Timetable for Implementation

23.1 Not applicable.

24 Appendices

24.1 None.

25 Background Information

25.1 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	11/5/2018		Throughout
Ross Brown	Director of Finance	10/5/2018	10/5/2018	Throughout
Cllr Bassam Mahfouz	Portfolio Holder – Finance and Leisure		N/a	

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		