



Report for: INFORMATION
Item Number:

Contains Confidential or Exempt Information	No
Title	Head of Internal Audit 2018/19 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	Cllr Bassam Mahfouz - Finance & Leisure
For Consideration By	Audit Committee
Date to be Considered	25 July 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 an update on the work of Internal Audit & Investigations for Quarter 1, 1 April 2018 – 30 June 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 April 2018 – 30 June 2018.

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 2018/19 Plan will form the main input for the development of the 2018/19 opinion to Council.

4. Internal Audit Performance as at 30 June 2018

- 4.1 This report provides a progress update on the 2018/19 internal audit plan and status of projects as at to 30 June 2018.
- 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 Six reports were outstanding at the end of 2017/18, these have now been finalised and are summarised below:

	Audit Title	Scope	Audit Status
1	Data protection	Readiness for 2018 legislation	Finalised (Advisory work).
2	Deprivation of Liberties	Controls and processes relating to Deprivation of Liberty safeguards and the Council's statutory responsibility as a supervisory body	Finalised (Limited assurance).
3	Jadu	Looking at application controls, e.g. access; authorisations; reporting and processing for Jadu.	Finalised (Reasonable assurance).
4	Framework1	Looking at application controls, e.g. access; authorisations; reporting and processing for Framework1.	Finalised (Reasonable assurance).
5	IT Cyber	Looking at controls to help mitigate and respond to cyber attacks.	Finalised (Reasonable assurance).
6	Homecare	Review of processes to procure, commission and monitor providers.	Finalised (Reasonable assurance).

4.4 During the period there were six 2017/18 final reports issued. One of the final reports had a Limited Assurance opinion, a summary of this one limited assurance report is:

- Deprivation of Liberties audit included two high risk recommendations relating to processing times and monitoring of cases and one medium finding relating to spot checks on best interest assessors provided by agencies. Management undertook to implement the recommendations by the end of June. These will be followed-up and reported to the next Committee.

4.5 The 2018/19 Plan was approved by the Audit Committee in March 2018. 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 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.

4.6 The position against the 2018/19 internal plan is set out in the table below.

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
1	Environment – Commercial Income	To review sources of income to include commercial waste, green waste and other income sources.	Terms of reference	Q1
2	Financial Control	A review of departments financial activity to confirm compliance with core financial system and financial regulations.	Terms of reference	Q1
3	Corporate Credit Cards	A review of the processes operated to monitor use of corporate credit cards. To include data analysis on spend.	Terms of reference	Q1
4	Cashiers/Cash Payments	A review of 'cash payments' or alternative arrangements introduced following the closure of the cashiers office.	Draft report	Q1
5	Temporary Accommodation	To review arrangements with landlords, setting up and payment including landlord incentives scheme.	Not started	Q1
6	Environmental Contract Renewals – Advisory	To provide audit advice and support where necessary as part of the renewal of Parking and	Not started	As required.

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
		Waste Management contracts.		
7	Emergency Response and Business Continuity	To review Emergency Response and Business Continuity arrangements for the Council, including the links to information technology.	Terms of reference	Q2
8	Benefits	A review of key systems and procedures.	Work in progress	Q2
9	Controls Assurance Monitoring of key financial systems.	Testing of key financial systems: <ul style="list-style-type: none"> - Payroll - Accounts Payable - Accounts Receivable - Council Tax - National Non-Domestic Rates (NNDR) - General Ledger 	Terms of reference	Q3
10	New starters induction programme	To review the council's new starter induction programme to ascertain compliance.	Not started	Q2

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
11	Commissioning	General assurance of processes and procedures. .		Q2
12	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>	Terms of reference	Q2
13	Leaseholders	To review policies and procedures, accuracy and validity of service charge billing, monitoring of annual service charges and income collection.	Terms of reference	Q2
14	Planning	The service is undertaking a review of the processes around planning applications. This review is to consider compliance with processes.	Terms of reference	Q2

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
15	ICT Application or Project	Linking in to the ICT team's application reviews to consider software application controls for a number of systems.	Not started	Q2
16	Better Lives Programme	A post implementation review of the Better Lives Adult Social Care Programme to confirm successful implementation of changes in to business as usual processes.	Not started	Q3
17	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.	Not started	Q3
18	Data Protection	A post implementation review of the General Data Protection Regulation (GDPR) requirements. To include consideration of broader activities of the team: <ul style="list-style-type: none"> • Freedom of Information • Subject Access Requests 	Not started	Q3

	Audit Title	Scope	Audit Status	Final Report to Audit Committee
		Breach response.		
19	Libraries	A review of key processing following the insourcing of the service	Not started	Q3
20	Future Ealing	To review project management processes run by the new Programme Management Office.	Not started	Q4
21	Fostering	To review vetting process, with particular focus on renewals.	Not started	Q4

4.7 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	0	0%
Draft report issued	1	5%
Work in progress	1	5%
Terms of Reference	9	42%
Not Started	10	48%
Total	21	100%
Original total	21	
Removed/on hold	0	
Additions	0	
Total	21	

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 18/19 audits delivered (draft report issued)
- Quarter 2 – 35% of 18/19 audits delivered (draft report issued)
- Quarter 3 – 70% of 18/19 audits delivered (draft report issued)
- Quarter 4 – 100% of 18/19 audits delivered (draft report issued)

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 main council audits are summarised as:

Main Council audits	2017/18	2018/19
Number of Recommendations	12	0
Fully implemented	4	0
Partially implemented	8	0

Four recommendations have been fully implemented. Satisfactory progress has been made on the remaining 8 recommendations. These will be monitored through to completion. If significant delays occur this will be reported to committee.

5.3 The results of the follow-up work from school audits are summarised as:

Schools Audit	2017/18	2018/19
Number of Recommendations	12	0
Implemented	11	0
Partially implemented	1	0

The one partially implemented recommendation will be monitored through to completion. If significant delays occur this will be reported to committee.

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; and
- Council Tax Reduction fraud.

6.2 Our work on reactive investigations has resulted in notional and actual savings of £181,834 and a total of 11 sanctions for quarter 1. This includes the recovery of 4 properties, which can now be allocated to those with a genuine need.

7. Pro-active Anti-Fraud Work

7.1 The following proactive drives that have taken place in Q1 2018/19:

- Fraud Roadshow
- Support to the London Counter Fraud Hub (ongoing)
- National Fraud Initiative
- Idscanners

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

7.3 The team conducted a second tenancy drive in March. Further work has been undertaken to follow-up on leads. The status of this work is updated below:

- 79 tenancies were verified;
- one strong lead for non-residency is being investigated
- one strong lead for sub-let is being investigated
- Two strong leads for single person discount are being investigated, one of which was referred to the Department for Work and Pensions for benefit related matters also.
- 25 revisits are being performed to any property that we were unable to verify (e.g. no one in).

7.4 Work continues to follow-up/investigations cases from the first tenancy drive where one notice to quit has been issued and one property has been successfully recovered.

7.5 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 have now being reviewed. A total of 208 SPDs were removed, representing additional billing of £26,372.

7.6 Idscanners, which scan and check validity of identify documents such as passports, driving licenses and visas have been introduced. The use and results from these scanners will be monitored and reported to future committees.

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

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 2018 and 30 June 2018 is that 7 cases either failed or were prevented, representing nearly 6% of all cases reviewed. A further 4 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 2018 and 30 June 2018.

Case status	Cross Council		
	Temp	Perm	Total
Pass	37	81	118
Fail	0	0	0
Withdrawn	4	3	7
Assignment Ended*	2	-	2
Total	43	84	127
Additional Outcomes			
3 rd Party Referral#	0	4	4

*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 30 June 2018

9.1 The targets for investigation have now been revised. Following discussion with members in the May meeting, we agreed to review a three year average against the last year outturn. The three year average (where available) has been adopted, as shown in the table below. The full comparison is available in Appendix A – Comparison of three year average to 2017/18 outturn.

A&I, Performance Indicators, 2018/19 to Q1

9.2 As suggested at the Audit Committee on the 30 May the table below details the performance of the team against a 3 year average.

	Target	2018/19 profile, Q1	2018/19 actual to Q1
Intelligence			
Number of new cases started	495	124	138
Number of cases passed for investigation	222	56	58
Average time from receipt of referral to 'Accepted' and forwarded for investigation	17 days	17 days	15 days
Completed pro-active operations	6	2	2
Investigation			
Number of completed investigations	254	64	111
Number of completed investigations (not referred on to another organisation or NFA)	153	38	27
Number of cases of proven (balance of probabilities) economic crime	51	13	11
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)	37	9	11
Number of council properties recovered (included above)	11	3	4
Number of Proceeds of Crime Act cases closed	4	1	1
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£45,000	£11,250	£0

Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£16,368	£4,092	£0
--	---------	--------	-----------

9.3 The number of cases closed following an investigation up to 30 June 2018 was 27. Of these the number where fraud was proved on the balance of probabilities was 11. The actual fraudulent loss incurred by the Council arising from those cases totals £37,410. This consists of benefit and Council Tax Reduction overpayments.

9.4 Overall, good progress is being made against the new targets. The exception being the court ordered confiscation or compensation as a result of proceeds of crime work. There is work in progress on a number of these cases, which will meet the in year target.

Council Tax

9.4 Investigations have resulted in ending 2 Council Tax discounts and 1 claim for Council Tax Reduction. 1 financial penalty imposed in respect of a Council Tax Reduction offence amounts to £424.

Council Tenancies (Notional Savings £144,000)

9.6 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.

9.7 The 4 council tenancies recovered and 4 tenancy applications refused following investigation releases accommodation for those with a genuine need and providing a notional saving of £144,000.

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: 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.

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

20.1 Not applicable.

21 Any other implications

21.1 None.

22 Timetable for Implementation

22.1 Not applicable.

23 Appendices

23.1 Appendix A – Comparison of 3 year average to 2017/18 outturn.

24 Background Information

24.1 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	10/7/2018		Throughout
Ross Brown	Director of Finance	9/7/2018	10/7/2018	Throughout
Cllr Bassam Mahfouz	Portfolio Holder – Finance and Leisure	10/7/2018	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		

Appendix A – Comparison of 3 year average to 2017/18 outturn.

Following discussion at the May committee. A comparison of the three year to last year analysis was undertaken, the results are shown below.

	2017/18 year-end	3 year average (except*)
Intelligence		
Number of new cases started	469	495
Number of cases passed for investigation	191	222
Average time from receipt of referral to 'Accepted' and forwarded for investigation	18 days	17 days
Completed pro-active operations	6	6*
Investigation		
Number of completed investigations	259	254
Number of completed investigations (not referred on to another organisation or NFA)	153	153*
Number of cases of proven (balance of probabilities) economic crime	54	51
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)	35	37
Number of council properties recovered (included above)	18	11
Number of Proceeds of Crime Act cases closed	4	4*
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£45,000	£45,000*
Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£16,368	£16,368*

*The targets are 3-year outturn averages, except where the target was new last year these have been left as last year's outturn.