



Report for: INFORMATION
Item Number:

Contains Confidential or Exempt Information	No
Title	Head of Internal Audit Opinion 2018/19 incorporating 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	22 May 2019
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	Internal audit and investigations

Purpose of Report:

The attached report provides Audit Committee with the Head of Internal Audit Report and Opinion on the Internal Audit work completed in 2018/19 and incorporates an update on the work of Internal Audit & Investigations for Quarter 4, 1 January 2019 – 31 March 2019. The Audit Committee are also asked to approve the Internal Audit Charter 2019.

1. Recommendations

1.2 It is recommended that the Audit Committee:

- Note the performance of the Internal Audit and Investigation team and key issues arising during the period 1 January 2019 – 31 March 2019.
- Note the Head of Internal Audit Annual Opinion for 2018/19.
- Agree the changes to the Audit Charter (Appendix A).
- Note the outcome and action plan from an external audit quality assessment of the service (Appendix B).

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 2018/19;
 - An overview of the Council's risk exposure and its overall system of internal control;
 - The work undertaken by Internal Audit in 2018/19;
 - 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. An updated Internal Audit Charter has been produced for the Council. The changes are largely to reflect changes to the structure of the Council, these changes are shown with tracked changes in the draft Audit Charter attached as appendix A. The charter sets out where Internal Audit sits within the Council and helps us to comply with the Public Sector Internal Audit Standards. The committee are asked to approve the updated charter in Appendix A.

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.

2. Background

- 2.1 The fundamental role of Internal Audit is to provide senior management and members with an independent assurance on the adequacy, effectiveness and efficiency of the system of internal control and report major weaknesses together with recommendations for improvement. The role is fulfilled by carrying out appropriate audit work in accordance with the Annual Plan as approved by the Chief Finance Officer and the Audit Committee. As Internal Audit is a major source of assurance that the Council is effectively managing its risks, a key rationale for the development of the Internal Audit Plan was the Council's own Corporate and Service Risk registers.

4. Head of Audit's Opinion

- 4.1 This report gives a summary of the work carried out by Internal Audit in the financial year 2018/19 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 2019. 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.
- 4.3 Controls relating to key financial systems were overall concluded to be at a reasonable assurance level. This is borne out by the key financial systems work (see table 6.4 items 9,10,11) have received reasonable assurance level during the year. There were some themes identified between these reports, noting that individually these were not all high recommendations. The themes identified between these reports related to refunds, in particular being made by cheque, and the regularity of suspense account clearing and reconciliations.
- 4.4 Internal Audit work on other systems has also concluded that there is an overall reasonable level of assurance. During the year 3 reports were issued with limited reports being Cashiers/Cash Payments, Data protection and Better Lives Programme. There were no nil assurance reports.
- 4.5 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 (as per reports for q1 to q3 reported throughout the year and reports finalise in q4 as shown in section 6). For information, this compares with 2017/18 where the overall opinion was also reasonable.

4.6 The table below provides a guide to how the assurance levels are defined.

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.
None	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. External Quality Assessment

5.1 In line with the Public Sector Internal Audit Standards, an external quality assessment was undertaken. The assessment found that the service generally conforms to the standards, with some minor recommendations. The exercise was found to be very helpful and an action plan to address the recommendations is in place. Full details of the review including the action plan are included in the report at Appendix B.

6. Internal Audit Performance as at 31 March 2019

6.1 This report provides a progress update on the 2018/19 internal audit plan and status of projects as at to 31 March 2019.

6.2 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 Chief Finance Officer (Section 151 Officer) meets with the Head of Audit & Investigations to discuss progress and emerging findings.

6.3 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	15	68%
Draft report issued	7	32%
Sub Total	22	100%
Work in progress	0	0%
Terms of Reference	0	0%
Not Started	0	0%
Total	22	100%
Original total	21	
Cancelled	-1	
Deferred	-1	
Additions	3	
Total	22	

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

	Audit Title	Scope	Audit Status	Final Report Issued	Final Report to Audit Committee
1	Environment – Commercial Income	To review sources of income to include commercial waste, green waste and other income sources.	Final report (Reasonable Assurance)	Q2	28 November 2018
2	Financial Control	A review of departments financial activity to confirm compliance with core financial system and financial regulations.	Draft report		
3	Corporate Credit Cards	A review of the processes operated to monitor use of corporate credit cards. To include	Draft report		

		data analysis on spend.			
4	Cashiers/Cash Payments	A review of 'cash payments' or alternative arrangements introduced following the closure of the cashiers office.	Final report (Limited Assurance)	Q2	28 November 2018
5	Temporary Accommodation	To review arrangements with landlords, setting up and payment including landlord incentives scheme.	Final report (Reasonable Assurance)	Q4	22 May 2019
6	Environmental Contract Renewals – Advisory	To provide audit advice and support where necessary as part of the renewal of Parking and Waste Management contracts.	Cancelled. This was an advisory project and has not been required.		
7	Emergency Response and Business Continuity	To review Emergency Response and Business Continuity arrangements for the Council, including the links to information technology.	Final report (Reasonable Assurance)	Q2	28 November 2018
8	Housing Benefits	A review of key systems and procedures.	Final report (Reasonable Assurance)	Q2	28 November 2018
9	Controls Assurance Monitoring of key financial systems – Housing rents	Testing of key financial systems	Final report (Reasonable Assurance)	Q4	22 May 2019
10	Controls Assurance Monitoring of key financial systems – Council Tax	Testing of key financial systems	Final report (Reasonable Assurance)	Q3	6 March 2018
11	Controls Assurance Monitoring of key financial systems – National Non-Domestic Rates (NNDR)	Testing of key financial systems	Final report (Reasonable Assurance)	Q3	6 March 2019

12	New starters induction programme	To review the Council's new starter induction programme to ascertain compliance.	Final report (Reasonable Assurance)	Q4	22 May 2019
13	Commissioning	General assurance of processes and procedures.	Final report (Reasonable Assurance)	Q2	28 November 2018
14	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>	Draft		
15	Leaseholders (Council Residential Properties)	To review policies and procedures, accuracy and validity of service charge billing, monitoring of annual service charges and income collection.	Final report (Reasonable Assurance)	Q3	6 March 2019
16	Planning	The service is undertaking a review of the processes around planning applications. This review is to consider compliance with processes.	Final report (Substantial Assurance)	Q2	28 November 2018
17	ICT Application or Project	Linking in to the ICT team's application reviews to consider	Draft report		

		software application controls for a number of systems.			
18	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.	Final report (Limited Assurance)	Q4	22 May 2019
19	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.	Draft report		
20	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 Breach response	Final report (Limited Assurance)	Q4	22 May 2019
21	Libraries	A review of key processing following the insourcing of the service	Draft report		
22	Future Ealing	To review project management processes run by the new Programme Management Office.	Deferred		

23	Fostering	To review vetting process, with particular focus on renewals.	Draft report		
24	Workforce planning	Review carried over from 2017/18	Final report (advisory)	Q4	22 May 2019

6.5 During the quarter six reports were finalised. Two of the reports had a Limited Assurance opinion a summary of these reports is provided:

i) Better Lives Programme (Adult Services Project)

There was one high risk finding relating to the intended financial benefits not been fully achieved. There were also three medium risk findings around lack of tracking of non-financial benefits, a lack of a formally documented change management process, and monitoring of staff implementation of values and behaviours

ii) Data protection

There were two high risk findings in relation to the operating effectiveness of hard copy information security principles (in particular hard copy documentation being left unsecured) and data processing activities not all being recorded in the Information Asset Register (IAR) resulting in a lack of a complete overview of all personal data processing activities undertaken at the Council.

6.6 Key performance indicators (KPIs) have been established to measure the delivery of the audit service across the shared service. These are how performance is measures 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)

6.7 The service has met the quarter 4 KPI and 100% of audits have been delivered.

7. Follow Up of Recommendations

7.1 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.

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

Council audits	2017/18	2018/19
Number of high risk Recommendations	21	6
Fully implemented	18	1
Partially implemented	3	0
Not yet Implemented	0	0
Not yet due	-	5

Nineteen recommendations have been fully implemented (18 2017/18 and 1 2018/19). Satisfactory progress has been made on the 3, 2017/18 partially implemented recommendations. These will be monitored through to completion. If significant delays occur this will be reported to committee.

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

Schools Audit	2018/19
Number of High-Risk Recommendations	1
Implemented	0
Partially implemented	0
Not yet implemented	1

All high risk finding for 2017/18 have now been implemented. The one high risk finding for 2018/19 which is yet to be implemented will be monitored. If significant delays occur this will be reported to committee.

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.

8.2 Highlights from the investigation work for the year:

- notional and actual savings of £1,277,203 (compared to £801,156 for 2017/18)
- 69 sanctions (compared to 35 for 2017/18)
- recovery of 19 (18 for 2017/18) council properties
- 24 Priority waiting list cases prevented
- 9 Homelessness cases prevented
- 31 vetting cases either failed or were prevented

9. Pro-active Anti-Fraud Work

9.1 The table below details the proactive drives that have taken place throughout 2018/19:

1) Housing tenancy day x 2	4) National Fraud Initiative
2) Housing Waiting Lists	5) Support for the London Counter Fraud Hub.
3) Phishing Exercise	6) Fraud road show

9.2 Work continued with the Housing Allocations Verifications team, a review of a homelessness cases is being undertaken.

9.3 An update from quarter 3 is that now a total of 20 cases are being reviewed:

- 7 cases are ongoing.
- 10 cases have resulted in removal or status downgraded on the waiting list.
- 3 cases have been closed – no further action.

With temporary accommodation costs estimated at around £18k per annum, this could have resulted in costs of £180,000 per annum. This area has been targeted due to the increasing cost pressure for the Council.

9.4 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 matches were released at the end of January. Matches are currently being reviewed and prioritised.

To date this work has resulted in 19 people being removed from the Housing waiting list.

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 2018 and 31 March 2019 is that 31 cases either failed or were prevented, representing nearly 6% of all cases reviewed. A further 16 cases resulted in referrals either internally or 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 31 March 2019.

Case status	Cross Council		
	Temp	Perm	Total
Pass	137	390	527
Fail	1	3	4
Withdrawn	15	12	27
Assignment Ended*	23	-	23
Total	176	405	581
Additional Outcomes			
3 rd Party Referral#	4	12	16

*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.

11. Investigation team performance to 31 March 2019

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

	Target (annual average based on previous 3 years)	2018/19 to Q4
1. Intelligence		
Number of new cases started	495	535
Number of cases passed for investigation	222	218
Average time from receipt of referral to ‘Accepted’ and forwarded for investigation	17 days	13 days
Completed pro-active operations	6	7

2. Investigation		
Number of completed investigations	254	514
Number of completed investigations (not referred on to another organisation or NFA)	153	164
Number of cases of proven (balance of probabilities) economic crime	51	72
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	69
Number of council properties recovered (included above)	11	19
Number of Proceeds of Crime Act cases closed	4	1
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£45,000	£0
Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£16,368	£9,096

11.2 The number of cases closed following an investigation up to 31 March 2019 was 164. Of these the number of cases where fraud was proved at least on the balance of probabilities was 72. The actual fraudulent loss incurred by the Council arising from those cases totals £175,419. This consists fraudulent Direct Payment care packages, Council Tax Reduction overpayments, cancelled Council Tax discounts and benefit overpayments.

11.3 The exception to the good results achieved was the court ordered confiscation or compensation as a result of proceeds of crime work. Members will recall from a case study reported to in the November Committee report that every effort is made to recover ill-gotten gains. Work is ongoing on a number of cases.

Council Tax

11.4 Investigations have resulted in the ending of 12 Council Tax discounts and the acceptance of 3 financial penalties in respect of Council Tax Reduction offences, amounting to £1,607.

Council Tenancies (Notional savings £774,000)

11.5 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.

11.6 The 19 council tenancies recovered and the 24 tenancy applications refused following investigation releases accommodation for those with a genuine need and provides a notional saving of £774,000.

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 Appendix A – Audit Charter 2019
Appendix B – External Quality Assessment including Action Plan

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:
Ross Brown	Chief Finance Officer			Throughout
Cllr Bassam Mahfouz	Portfolio Holder – Finance and Leisure		For reference only	

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		