



**Report for:  
INFORMATION**

**Item Number: 10**

<b>Contains Confidential or Exempt Information</b>	No
<b>Title</b>	Head of Internal Audit 2018/19 Quarter 3 Internal Audit & Investigation Update Report
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<b>Portfolio</b>	Cllr Bassam Mahfouz - Finance & Leisure
<b>For Consideration By</b>	Audit Committee
<b>Date to be Considered</b>	6 March 2019
<b>Implementation Date if Not Called In</b>	N/A
<b>Affected Wards</b>	All
<b>Keywords/Index</b>	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 3, 1 October 2018 – 31 December 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 October 2018 – 31 December 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 31 December 2018

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

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

	<b>Audit Title</b>	<b>Scope</b>	<b>Audit Status</b>	<b>Final Report Issued</b>	<b>Final Report to Audit Committee (forecast)</b>
1	Environment – Commercial Income	To review sources of income to include commercial waste, green waste and other income sources.	Final report (Reasonable Assurance)	Q2	Q2
2	Financial Control	A review of departments financial activity to confirm compliance with core financial system and financial regulations.	Draft report		Q4
3	Corporate Credit Cards	A review of the processes operated to monitor use of corporate credit cards. To include data analysis on spend.	Draft report		Q3
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	Q1

5	Temporary Accommodation	To review arrangements with landlords, setting up and payment including landlord incentives scheme.	Fieldwork in progress		Q4
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.		As 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	Q3
8	Housing Benefits	A review of key systems and procedures.	Final report (Reasonable Assurance)	Q2	Q2
9	Controls Assurance Monitoring of key financial systems – Housing rents	Testing of key financial systems	Draft report		Q4
10	Controls Assurance Monitoring of key financial systems – Council Tax	Testing of key financial systems	Final report (Reasonable Assurance)	Q3	Q3
11	Controls Assurance Monitoring of key financial systems – National Non-Domestic Rates (NNDR)	Testing of key financial systems	Final report (Reasonable Assurance)	Q3	Q3
12	New starters induction programme	To review the Council's new starter induction programme to ascertain compliance.	Draft report		Q4

13	Commissioning	General assurance of processes and procedures.	Final report (Reasonable Assurance)	Q2	Q3
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 report		Q3
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	Q3
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	Q3

17	ICT Application or Project	Linking in to the ICT team's application reviews to consider software application controls for a number of systems.	Draft report		Q4
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.	Fieldwork in progress		Q3
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.	Fieldwork in progress		Q3
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"> <li>• Freedom of Information</li> <li>• Subject Access Requests</li> </ul> Breach response.	Draft report		Q3
21	Libraries	A review of key processing following the insourcing of the service	Fieldwork in progress		Q3

22	Future Ealing	To review project management processes run by the new Programme Management Office.	Not started		Q4
23	Fostering	To review vetting process, with particular focus on renewals.	Terms of Reference in draft		Q4
24	Workforce Planning	Review carried over from 2017/18	Draft report		Q3

4.5 The table below provides a summary of progress in terms of the number of reports at draft or final stage and those in progress:

<b>Audit Status</b>	<b>Number of reviews</b>	<b>Percentage Completion</b>
Finalised	9	39%
Draft report issued	8	35%
<b>Sub Total</b>		<b>74%</b>
Work in progress	4	18%
Terms of Reference	1	4%
Not Started	1	4%
<b>Total</b>	<b>23</b>	<b>100%</b>
Original total	21	
Cancelled	-1	
Additions	3	
<b>Total</b>	<b>23</b>	

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

4.7 A total 74% of reports have been issued to draft and final. This is slightly ahead of the target of 70% against the audit plan. The Audit & Investigation team remains on target to complete all projects to draft by the end of March 2019.

## 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:

<b>Council audits</b>	<b>2017/18</b>	<b>2018/19</b>
Number of high risk Recommendations	21	1
Fully implemented	7	0
Partially implemented	8	1

Seven recommendations have been fully implemented. Satisfactory progress has been made on the 8 2017/18 and 1 2018/19 partially implemented 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:

<b>Schools Audit</b>	<b>2017/18</b>
Number of Recommendations	12
Implemented	11
Partially implemented	1
Not implemented	0

The one partially implemented recommendation will be monitored. 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 £756,276 notional and £126,654 actual savings totalling £882,930 and 50 sanctions to Quarter 3. This includes the recovery of 16 council properties, which can now be allocated to those with a genuine need.

## **7. Pro-active Anti-Fraud Work**

7.1 The following proactive drives took place in Q3 2018/19:

### Phishing

7.2 The ICT team aims to prevent phishing, with the majority of such emails getting blocked via the system. Cybercrime is however, on the increase and as ICT resilience increases, so does the sophistication of attacks. Audit and Investigation want to remind employees to watch out for scams in the event that a fraudulent email gets through.

7.3 A second test phishing exercise was undertaken with the ICT service. This time all staff were emailed from a London Council's Digital (LCD). This contained a competition to win £500 of Amazon vouchers and a link to a web page. The web page asked simply for an email address and password.

7.4 Each of these users has been written to. In addition where they submitted their user name and password ICT required a password reset. Audit & Investigation have also reported results to Corporate Board and asked them to remind their teams to be vigilant.

### Housing Waiting List

7.5 Working with the Housing Allocations Verifications team, a review of a homelessness cases is being undertaken.

7.6 A list of applicants was reviewed. Focus was made on applications with no fixed abode, which are a higher priority for social housing. As part of the project a enhanced verification process, un-announced visits and various other checks were undertaken, in order to confirm that the applicant has provided accurate information. A total of 15 cases are being reviewed:

- 5 cases are ongoing.
- 7 cases have resulted in removal from 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 £126,000 per annum. This area has been targeted due to the increasing cost pressure for the Council. Once the review has been completed, Audit & Investigation will work with the service to recommend additional checks and controls. These checks and controls will help to prevent false applications in the future and protect resource for those with a genuine need.

## National Fraud Initiative

7.7 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 10 people being removed from the Housing waiting list.

## Updates

7.8 The following are updates to exercises previously reported to Committee.

### Update on the Evening Tenancy drive at Racecourse Estate

7.9 The team visited 105 properties. The outcomes were:

- 79 properties verified (75%).
- 26 revisits required (no reply or named tenant not home). Revisits will continue, but after a number of failed attempts, these will be passed to investigation.

A referral was also made to the DWP for undeclared non-dependents present.

7.10 Update on the Moreton and Rufford Towers.

The team visited 108 properties.

- 101 properties have now been verified (94%).
- 1 property has now been recovered.
- 2 strong ongoing non-residency / subletting cases
- 3 ongoing investigations
- 1 single person discount overpayment identified

In addition an overpayment of DWP benefits (£12k) and Council Tax Reduction (£2k) was identified.

## 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 31 December 2018 is that 27 cases either failed or were prevented, representing nearly 7% of all cases reviewed. A further 7 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 31 December 2018.

Case status	Cross Council		
	Temp	Perm	Total
Pass	93	276	369
Fail	1	3	4
Withdrawn	12	11	23
Assignment Ended*	10	-	10
<b>Total</b>	<b>116</b>	<b>290</b>	<b>406</b>
<b>Additional Outcomes</b>			
3 <sup>rd</sup> Party Referral <sup>#</sup>	3	9	12

\*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.

<sup>#</sup>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 2018

9.1 The table below details the performance of the team to 31 December 2018.

	3-year average (except *)	2018/19 profile, Q3	2018/19 to Q3
<b>Intelligence</b>			
Number of new cases started	495	371	<b>405</b>
Number of cases passed for investigation	222	167	<b>170</b>
Average time from receipt of referral to 'Accepted' and forwarded for investigation	17 days	N/a	<b>14 days</b>
Completed pro-active operations	6 *	5	<b>5</b>
<b>Investigation</b>			
Number of completed investigations	254	191	<b>374</b>
Number of completed investigations (not referred on to another organisation or NFA)	153 *	115	<b>116</b>
Number of cases of proven (balance of probabilities) economic crime	51	38	<b>48</b>
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	28	<b>50</b>
Number of council properties recovered (included above)	11	8	<b>16</b>
Number of Proceeds of Crime Act cases closed	4 *	3	<b>0</b>
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£45,000 *	£33,750	<b>£0</b>
Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£16,368 *	£12,276	<b>£0</b>

9.2 The number of cases closed following an investigation up to 31 December 2018 was 116. Of these the number of cases where fraud was proved at least on the balance of probabilities was 48. The actual fraudulent loss incurred by the Council arising from those cases totals £126,654. This consists of benefit overpayments, Council Tax Reduction overpayments and cancelled Council Tax discounts.

9.3 Overall, good progress is being made against target. The exception being 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

9.4 Investigations have resulted in the ending of 8 Council Tax discounts and the imposition of 3 financial penalties in respect of Council Tax Reduction offences, amounting to £1,607.

## Council Tenancies (Notional savings £540,000)

9.5 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.

9.6 The 16 council tenancies recovered and 14 tenancy applications refused following investigation releases accommodation for those with a genuine need and provides a notional saving of £540,000.

## **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**

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](mailto: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	20/02/19	20/02/19	Throughout
Cllr Bassam Mahfouz	Portfolio Holder – Finance and Leisure	22/02/19	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		