



**Report for:
INFORMATION**

Item Number:

Contains Confidential or Exempt Information	No
Title	Head of Internal Audit Opinion 2019/20 incorporating Quarter 4 Internal Audit & Investigation Update Report
Responsible Officer	Ross Brown, Chief Finance Officer Mike Pinder, Assistant Director of Audit & Investigations
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Portfolio	Cllr Bassam Mahfouz - Finance & Leisure
For Consideration By	Audit Committee
Date to be Considered	28 July 2020
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 2019/ update on the work of Internal Audit & Investigations for Quarter 4, 1 April 2019 – 31 March 2020.

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 2019 – 31 March 2020.
- Note the Head of Internal Audit Annual Opinion for 2019/20.
- Note no material changes to the Audit Charter are required this year.

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 Assistant Director 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 2019/20;
- An overview of the Council's risk exposure and its overall system of internal control;
- The work undertaken by Internal Audit in 2019/20;
- 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 update was agreed by the Committee in July 2019 [see link](#). The Charter is reviewed annually, having done this no updates are proposed this year.

3. Key Implications

3.1 Internal audit is an assurance function that provides an independent and objective opinion to Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving corporate objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. While assurance will also be sought from third parties, the assurance gained from the programme of work set out in the 2019/20 Plan will form the main input for the development of the 2019/20 opinion to Council.

4. Head of Audits Opinion

- 4.1 This report provides a summary of the work carried out by Internal Audit in the financial year 2019/20 and the results of that work as reported in progress reports to Committee throughout the year and as set out in section 6. 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. For information, this compares with 2018/19 where the overall opinion was also reasonable.
- 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 6.3 items 5,6 and 7) all three reports received reasonable assurance levels. There were no thematic issues identified between these reports.
- 4.4 Internal Audit work on other systems has also concluded that there is an overall reasonable level of assurance. This is based on the majority of reports (61%) receiving a positive assurance level (substantial or reasonable). The assurance levels for each report are summarised in the table below:

Assurance Level	Audit Area
Substantial	None
Reasonable (61%)	<ol style="list-style-type: none"> 1. Future Ealing 2. West London Alliance 3. Payroll (Key Financial System) 4. General Ledger (Key Financial System) 5. Pensions (Key Financial System) 6. Cash Payments 7. Project Management 8. Highways 9. Environmental Contract Renewals 10. Housing Hubs 11. Licencing – Alcohol and Gambling 12. ICT Applications – Social Care Systems (Synergy) 13. Brokerage Team 14. Schools Programme
Limited (39%)	<ol style="list-style-type: none"> 1. Health and Safety 2. Housing Contract Management 3. Temporary Accommodation – Rents 4. ICT Applications – Income Systems (Civica) 5. ICT Applications – Income Systems (Ash) 6. ICT Applications – Social Care Systems (Mozaic) 7. Digital Programme Management

	8. Section 75 Agreement 9. Ealing Services for Children with Additional Needs (ESCAN)
No	None

- 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.
- 4.7 The assurance is based upon work completed between 1 April 2019 and 31 March 2020. All work had been completed to draft report stage prior to the Covid 19 lockdown period. There has been an expenditure monitoring project in the Covid 19 response space, as well as significant advice and support on new systems necessary during the period. These will be considered as part of the 2020/21 Head of Audit's opinion.
- 4.8 The table below provides a guide to how the assurance levels are defined.

<u>Assurance Level</u>	<u>Definition</u>
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. Internal Audit Performance as at 31 March 2020

- 5.1 This report provides a progress update on the 2019/20 internal audit plan and status of projects as at to 31 March 2020.
- 5.2 The 2019/20 Plan was approved by the Audit Committee in March 2019. The plan presented was indicative and as such can be subject to revision during the year to take account of changing priorities and emerging risks, which is aligned with good internal audit practice. The Audit Board monitors progress against the plan and the Chief Finance Officer (Section 151 Officer) meets with the Assistant Director of Audit & Investigations to discuss progress and emerging findings.
- 5.3 The position against the 2019/20 internal plan is set out in the table below.

	Audit Title & Department	Scope	Audit Status	Final Report Issued	Final Report to Audit Committee
1	Future Ealing	To review delivery of a sample of projects.	Finalised (Reasonable Assurance)	Q2	27 November 2019
2	Health and Safety	A review of the overarching governance arrangements. This will include a detailed follow-up review of fire risk and electrical safety assessment in the Housing arena.	Finalised (Limited Assurance)	Q4	28 July 2020
3	West London Alliance	The West London Alliance is run by Ealing, but operates to support West London Council's in delivery of a number of projects.	Finalised (Reasonable Assurance)	Q3	4 March 2020
4	Brexit - Advisory	Providing ongoing advice, challenge and support to management on oversight of Brexit issues as they emerge.	Finalised (Advisory)	Q4	28 July 2020
5	Key Financial System (KFS) Payroll	Payroll and transactional HR (this will also include the iTrent system).	Finalised (Reasonable Assurance)	Q4	28 July 2020
6	KFS General Ledger	General Ledger	Finalised (Reasonable)	Q4	28 July 2020

			Assurance)		
7	KFS Pensions	Pensions Administration	Finalised (Reasonable Assurance)	Q4	28 July 2020
8	Cash Payments	Following the closure of cashiers in 2018/19, this review will look at how services are managing cash.	Finalised (Reasonable assurance)	Q3	4 March 2020
9	Credit Cards	A follow-up of the 2018/19 audit.	Finalised (Follow up)	Q3	4 March 2020
10	Project Management	A review of project management processes including governance and procedures. This will include a review of key projects/stages to be agreed. E.g. Delivery of 2500 affordable homes.	Finalised (Reasonable Assurance)	Q4	28 July 2020
11	Highways	A review of highway services and contract management.	Finalised (Reasonable Assurance)	Q2	27 November 2019
12	Environmental Contract Renewals - Waste	A review of the transfer of plans for the transfer of assets and staff.	Finalised (Reasonable Assurance)	Q2	27 November 2019
13	Housing Hubs	A review following the shift to neighbourhood offices which locally manage housing services. This will largely review the rents and repairs processes to confirm controls continue to operate following the change to hubs.	Finalised (Reasonable Assurance)	Q4	28 July 2020
14	Licencing – Alcohol and Gambling	A review of the processes for issuing and annual renewals to ensure all income due is collected.	Finalised (Reasonable assurance)	Q1	4 March 2020
15	Housing Contract Management	A review of contract management arrangements. This	Finalised (Limited Assurance)	Q4	28 July 2020

		will look at the monitoring arrangements for two areas,			
16	Temporary Accommodation – Rents	A review to look at the arrangements for charging rent to ensure rent invoicing for new lets is done promptly. To consider arrangements for arrears.	Finalised (Limited assurance)	Q3	4 March 2020
17	ICT Applications - Income Systems	Incomes systems (Civica and Ash)	Finalised (Civica – Limited Ash – Limited)	Q3	4 March 2020
18	ICT Applications – Social Care Systems	Social care systems (Mosaic and Synergy)	Finalised (Mosaic – Limited Synergy – Reasonable)	Q3	4 March 2020
19	Digital Programme Management	A review of the digital programme to confirm that it is running well and delivering to timetable.	Finalised (Limited Assurance)	Q4	28 July 2020
20	Better Lives Programme	A revisit of this key programme to confirm it continues to operate.	Finalised (Follow up)	Q4	28 July 2020
21	Section 75 Agreement	A review of the joint arrangements with the Clinical Commissioning Group. This will include contracts, following the recent issue of new contracts to all providers.	Finalised (Limited Assurance)	Q4	28 July 2020
22	Ealing Services for Children with Additional Needs (ESCAN)	Education payments for SEN pupils (including ESCAN)	Finalised (Limited Assurance)	Q4	28 July 2020
23	Brokerage Team	A review of the work of the Brokerage Team to confirm arrangements in	Finalised (Reasonable Assurance)	Q2	27 November 2019

		place are working as expected.			
24	Schools programme	A review of the project management and oversight of the schools expansion programmes.	Finalised (Reasonable Assurance)	Q2	27 November 2019

5.4 During quarter 4 there were twelve 2019/20 reports finalised. Five of these received a limited assurance opinion as follows:

- Health and Safety: We identified one high risk finding in relation to remedial actions not being monitored in all cases by the Council. We also identified three medium risk actions in relation to risk assessments/condition surveys monitoring, corporate health and safety policy, and contractual coverage in relation to health and safety audit assistance survey.
- Housing Contract Management: We identified one high risk in relation to monitoring and recording of third party certification or accreditation for fire door installations. We also identified three medium risk findings in relation to contractor performance management, a lack of supporting documentation to justify variations, and segregation of duties in the order raising process.
- Digital Programme Management: We identified one high risk issue in relation to delays to the programme and the potential impact in terms of cost and achievement of benefits. We identified two medium risk findings in relation to governance and control and risk management.
- Section 75 Agreement: We identified one high risk finding in relation to future section 256 contributions from the Clinical Commissioning Group and the expiry of the s75 agreement. We identified two medium risk findings in relation to a lack of a signed agreement for the current year and the lack of performance reporting to the Joint Management Team.
- Education Payments for SEN Pupils: We identified four medium risk issues and three low risk issues. The medium risk issues included incomplete purchase orders affecting different year budgets, lack of description on invoices resulting in overspending in the incorrect financial year, direct payment expenditure not being monitored and poor budget forecasting also resulting in unexpected overspending.

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

Audit Status	Number of reviews	Percentage Completion
Finalised	24	100%
Draft report issued	0	20
Sub Total	24	100%
Work in progress	0	0%
Terms of Reference	0	0%
Not Started	0	0
Total	24	100%

5.6 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 19/20 audits delivered (draft report issued)
- Quarter 2 – 35% of 19/20 audits delivered (draft report issued)
- Quarter 3 – 70% of 19/20 audits delivered (draft report issued)
- Quarter 4 – 100% of 19/20 audits delivered (draft report issued)

5.7 A 100% of reports have been issued to final, which completes the audit plan for 2019/20

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.

Follow-up of high recommendations		%
Number of high risk findings	13	
Number of high risk findings completed	0	0%
Number of high risk findings in progress	0	0%
Not yet due	13	100%
Not implemented	0	0%
Awaiting responses	0	0%

7. Counter Fraud and Investigations Performance & Developments

7.1 The Shared Service is responsible for the investigation of all types of suspected fraud committed against the Council including, but not limited to:

- Corporate fraud matters in relation to offences committed by employees;
- Procurement fraud by employees, contractors or other third parties;
- Fraud within schools;
- Housing related fraud;
- Social care (direct payments); and
- Council Tax Reduction fraud.

7.2 Reactive investigations during the year have resulted in notional savings of £686,612, identified actual losses of £258,069 (totalling £944,681) and 48 sanctions applied.

8. Pro-active Anti-Fraud Work

8.1 The following proactive drives took place between 1 April – 31 March 2020 and the progress is reported below:

Direct Payments

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

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

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

Housing Waiting List

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

- 4 cases are ongoing.
- 21 cases – closed proved (including 7 removed from the register / the others are unable to bid for a property as their status has been downgraded).
- 5 cases have been closed – no further action.
- 4 cases closed – not proved.

National Fraud Initiative

The National Fraud Initiative (NFI) is an exercise run by the Cabinet Office. The data match is undertaken every 2 years, it matches electronic data within and between public and private sector bodies to prevent and detect fraud. The following outcomes have been identified to date:

- 19 people being removed from the Housing waiting list.

- 3 Council Tax reductions stopped (total value £4,706).
- 276 Blue badges have been cancelled.
- 1 Blue badge case also resulted in identification of an HB overpayment of £13,677 and Council Tax Reduction overpayment of £177.
- 1 property recovered.

Housing Tenancy

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

- 143 properties visited
- 106 properties successfully verified
- 1 property recovered (reported q3)
- 36 re-visits required (due to tenant not been available)

In addition, to the property that was recovered and reported to Audit Committee in quarter 3, a further case was closed whereby an overpayment of council tax reduction was identified amounting to £1,824.

9. Enhanced Vetting (EV)

- 9.1 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.
- 9.2 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.

9.3 The outcomes of the vetting work for between 1 April 2019 and 31 March 2020 is that 41 cases either failed or were prevented, representing 7% of all cases reviewed. A further 10 cases resulted in referrals to other departments or organisations. The full details of the work of the vetting service are set out in the table below.

Table summarising work on Enhanced Vetting, 1 April 2019 and 31 March 2020.

Case status	Cross Council		
	Temp	Perm	Total
Pass	132	417	549
Fail	4	14	18
Withdrawn	7	16	23
Assignment Ended*	23	2	25
Total	166	449	615
Additional Outcomes			
3 rd Party Referral#	2	8	10

Notes:

*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.

9.4 Vetting cases studies

- Candidate A: Interviewed in lockdown via skype. Candidate had invented a work history to meet the demands of the advertised role and had friends write references to support the deception.
- Candidate B: for an agency role in a post which included some financial responsibilities. EV revealed candidate had been successfully prosecuted by a number of previous employers for a high profile fraud in a similar role.

10. Investigation team performance to 31 March 2020

The table below details the performance of the team to 31 March 2020.

	Target	2019/20 to Q4
Intelligence		
Number of new cases started	528	537
Number of cases passed for investigation	216	193
Average time from receipt of referral to 'Accepted' and forwarded for investigation	14 days	11 days
Completed pro-active operations	4	4
Investigation		
Number of completed investigations	340	570
Number of completed investigations not referred on to another organisation or NFA	158	182
Number of cases of proven (balance of probabilities) economic crime	58	76
Number of sanctions applied (includes: Prosecution; Police caution; Disciplinary action; Tenancy application refused; Right-To-Buy application rejected; Council property recovered; Direct payment cancelled; Council Tax Reduction Scheme penalty; Blue Badge warning)	47	48
Number of council properties recovered (included in 'Sanctions' above)	14	7
Number of Proceeds of Crime Act cases closed	2	2
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£64,000	£0
Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	£12,000	£0

10.1 As set out in the table above performance against target was largely positive. Exceptions are:

- Recovery of tenancies remains a priority but was below target. These area has been supported by proactive projects which have resulted in significant success in the prevention of allocation of tenancies, 22 applications having been rejected as a result.

- Proceeds of crime. Work continues in this area, as indicated previously there are a limited number of cases which take time to progress.

10.2 The number of cases closed up to 31 March 2020 following an investigation was 182. Of these the number of cases where fraud was proved, at least on balance of probabilities, was 76. The actual fraudulent loss incurred by the Council arising from those cases totals £258,069. This loss comprises theft, benefit overpayments, Council Tax Reduction overpayments, cancelled Council Tax discounts and Direct Payment care payments.

Council Tax

10.3 Investigations have resulted in the ending of 5 Council Tax discounts, and a financial penalty of £300 in respect of a Council Tax Reduction offence.

Council tenancies

10.4 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.

10.5 22 tenancy applications have been refused following investigation, releasing accommodation for allocation to those with a genuine need.

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

7 council properties have been recovered from unlawful tenants following investigation.

Payment of 1 Home Loss grant was prevented, providing a saving of £6,400.

Together these results provide a notional saving of £638,900.

Direct Payment

10.6 8 Direct Payment care packages have been cancelled following investigation. In these cases there is no historical debt. The cases represent an assumed future annual saving totalling £54,112.

10.7 In addition, as previously advised during the year £80,000 has been recovered from one claimant who had falsified information provided to support the care being received. The case is yet to be concluded.

11. Financial

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

12. Legal

12.1 Counter Fraud work is carried out in compliance with criminal and civil law and criminal investigation procedures relevant to investigation work including: Police and Criminal Evidence Act (PACE) 1984; Criminal Procedure and Investigations Act (CPIA) 1996; Fraud Act 2006; Proceeds of Crime Act (PoCA) 2002; Regulation of Investigatory Powers Act (RIPA) 2000; and Human Rights Act 1998

13. Value for Money

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

14. Sustainability Impact Appraisal

14.1 Not applicable.

15. Risk Management

15.1 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.

16 Community Safety

16.1 Not applicable.

17 Links to Strategic Objectives

17.1 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'.

18 Equalities and Community Cohesion

18.1 Not Applicable.

19 Staffing/Workforce and Accommodation implications

19.1 None.

20 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 None.

24 Background Information

24.1 Details of internal audit reports are available to Members upon request from Mike Pinder, Assistant Director 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	14/07/2020	16/7/2020	Throughout
Cllr Bassam Mahfouz	Portfolio Holder – Finance and Leisure			For reference only

Report History

Decision type:	Urgency item?		
For information	No		
Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
Report no:	Report author and contact for queries: Mike Pinder, Assistant Director of Audit & Investigations, ext 5792		