



Report for: INFORMATION
Item Number:

Contains Confidential or Exempt Information	No
Title	Quarter 3 Internal Audit & Investigation Update Report
Responsible Officer	Ross Brown, Director of Finance Jeremy Welburn, Interim Head of Audit & Investigations
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Portfolio	Cllr Yvonne Johnson - Finance, Performance and Customer Services
For Consideration By	Audit Committee
Date to be Considered	28 February 2017
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	Internal audit and investigations

Purpose of Report:
The attached report provides the Audit Committee with an update on the work of Internal Audit & Investigations for Quarter 3, 1 April – 31 December 2016 (To date for internal audit work).

1. Recommendation

1.1 It is recommended that the Audit Committee notes the performance of the Internal Audit & Investigation team and key issues arising during the period 1 April – 31 December 2016 (to date for the internal audit team).

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.

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 2016/17 Plan will form the main input for the development of the 2016/17 opinion to Council.

4. Internal Audit Performance as at 31 January 2017

4.1 This report provides a progress update on the work of internal audit to the 31 January 2017.

4.2 The contract with the new Strategic Audit Partner, PwC, was signed in June of this year, with audit work for 2016/17 starting shortly after this. As such, the update has been provided to the 31st of January, rather than the end of December (Quarter 3), to provide the Audit Committee with the most up to date position on progress against the audit plan, given the delayed start to the programme this year.

4.3 The 2016/17 Plan was approved by the Audit Committee in March 2016. The plan presented was indicative and can be subject to revision during the year to take account of changing priorities and emerging risks, which is aligned with good internal audit practice. The Audit Board monitors progress against the plan and the Section 151 Officer and the Director of Finance meets with the Head of Audit & Investigations and the Strategic Internal Audit Partner to discuss progress and emerging findings.

4.4 The following table shows progress against the 2016/17 audit plan, illustrating the status (draft/final/in progress etc) of each review:

	Audit Title	Scope	Audit Status
1	Mortlake Crematorium	Probity review of financial management	Finalised – Substantial Assurance
2	Specific School Audit – Financial Governance	Review of financial management in a school following management request	In progress
3	Review of school catering contract	Contract management review of the school catering contract	In progress
4	S106 Income/CIL	Review of MCIL arrangements and income/expenditure monitoring for S106	Finalised (Reasonable Assurance)
5	Fire Safety, Asbestos and Legionella	Review of H&S assessments, governance, monitoring of remedial actions and training arrangements for fire safety, legionella and	Finalised (Limited Assurance)

		asbestos for non-residential properties across the Council	
6	Care Homes	Review of monitoring arrangements for the Council's Care homes	In progress
7	Assurance mapping	Development of assurance map for 2017/18.	Finalised (Audit opinion not applicable)
8	Contract Management	A review of the governance arrangements for six contracts	Draft report issued
9	Continuous auditing and monitoring Phase 1 (Key financial systems)	Audit of key controls for five key systems: Accounts Payable, Accounts Receivable, NNDR, Council tax, Payroll	Finalised. Risk classification is assigned to each area: Payroll - Medium risk; Accounts payable - Low risk; Accounts receivable - Medium Risk; Council tax - High risk; National Non-Domestic Rates (NNDR) - Medium risk; General ledger and Cash - High risk *
10	Continuous auditing and monitoring Phase 2 (Key financial systems)		To be delivered in Q4 (w/c 20 th February)
11	Public Health Governance	A governance and financial management review of Ealing's involvement in the procurement process for Pan London E- Services/home testing service and Sub-Regional procurement of face to face/clinic provision	Finalised (Substantial assurance)
12	Schools themed audits – Payroll and safe recruitment	Review of payroll and safe recruitment arrangements in 5 schools maintained by the Council	Finalised – Reasonable assurance overall
13	Schools themed audits – Procurement	Review of procurement arrangements in 5 schools maintained by the Council	Finalised – Reasonable assurance overall
14	Schools themed audits – Financial governance	Review of financial governance arrangements in 5 schools maintained by the Council	Finalised – Reasonable assurance overall
15	Customer portal	Review of processes and controls in place over user access rights, project change management and the user experience for Customer Portal	Finalised (Reasonable assurance)
16	Highways payments	Review of payments to contractors to confirm these are valid, accurate and complete. This included the end-to-end	Finalised (Substantial assurance)

		process from commissioning works, authorising works, delivery and payment	
17	Cash Handling	Review of expenditure approval, reconciliations, reimbursements and cash security for the Greenford Business Service Centre	Finalised (Reasonable assurance)
18	Temporary Accommodation	Review of governance arrangements and spend in temporary accommodation	In progress
19	Housing stock – Fire safety	Review of Fire Safety Policy implementation	In progress
20	Leasehold Services – Capital Spend	Review of the effectiveness of recovery of costs from leaseholders	In progress
21	Town Hall Redevelopment	Governance review of the Town Hall redevelopment project	Scoping completed, but audit to be delivered late in Q4 due to status of the project
22	Eligibility to work	Review of the recruitment processes and assessment of eligibility to work	Draft report issued
23	ICT transition programme/ Serco contract exit plan	Review of the transition programme from Serco to the new provider – governance, project plan, finance; Review of the Serco exit plan, including review of handover document requirements and compliance.	Draft report issued
24	IT Risk diagnostic	Use of IT Risk Diagnostic to identify risk areas	Scoping meeting held, audit postponed to July 2017 due to ongoing changes in IT structure and transfer of the functions from Serco.
25	Highways Network Assets	Review of the process developed by the Council to revalue Highways Network Assets to ensure that the balance is complete, accurate and valid.	Draft report issued

* It should be noted that the High Risk opinion provided for the General Ledger and Cash section of the continuous audit monitoring report relates to bank reconciliations. The findings identified that there is an in-year unreconciled variance each month. An action plan is in place and monitored by management for bank reconciliation improvements.

4.5 Key performance indicators (KPIs) have been established to measure the delivery of the audit service across the shared service. These are how we measure our performance to ensure that all audits on the plan for each Council are delivered by the end of the financial year. The shared service

KPIs for delivery against the audit plan for each quarter are (based on draft reports issued):

Quarter 1 – 15% of 16/17 audits delivered (draft report issued)

Quarter 2 – 35% of 16/17 audits delivered (draft report issued)

Quarter 3 – 65% of 16/17 audits delivered (draft report issued)

Quarter 4 – 100% of 16/17 audits delivered (draft report issued)

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	12	48
Draft	4	16
In Progress	6	24
Audit scoped, scheduled to start fieldwork	2	8
Deferred to 17/18	1	4
Total	25	100

4.11 The current percentage output of 64% of the plan delivered at draft or final stage is only just below the target for this stage of the year, due to the delayed start to the audit plan. The progress tables at Section 4.9 and 4.10 above demonstrate the level of work in progress and the schedule for the rest of the audit year. As such, despite the late start due to the new audit contract, the plan will be delivered in full by the end of March 2017 (with the exception of the IT Risk Diagnostic review, which has been postponed due to the transfer of functions from the Serco contract).

4.12 There has been one report issued with a Limited assurance opinion finalised to date – the Fire Safety, Asbestos and Legionella audit. Three high risk recommendations were raised, as detailed below:

- The Atrium system records all property details (including lease arrangements, tenancy status and statutory compliance data (risk assessments)) and the details of premises managers responsible for health and safety. Information held on Atrium is out-of-date meaning this data may be inaccurate. This means the Council could have overspent on commissioning unnecessary risk assessments, neglected to perform risk assessments on some properties and not provided adequate training to premises managers.
- Risk assessments are not being performed in line with the Council's defined frequency. This could mean that the Council is not compliant with regulations.
- The Council cannot always evidence that remedial actions have been performed. A lack of evidence could suggest that remedial action has not occurred or make this difficult to prove.

All recommendations were agreed and action plans are now in place to address the issues identified.

4.13 Follow Up of Recommendations

All outstanding Priority 1 recommendations from the previous Strategic Audit Partner, Mazars, were followed up and reported to the July Audit Committee. The Head of Audit and Investigations is working with PwC to implement their own bespoke recommendation tracking tool, TrAction.

5. Counter Fraud and Investigations Performance & Developments

5.1 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;
- Council Tax Reduction fraud; and,
- School placement applications.

5.2 Ealing Council will be part of the pilot for the London Counter Fraud Hub (LCFH). The LCFH will use data provided by local authorities and other sources to increase the detection and prevention of fraud across London, using advanced data analytics and matching systems. CIPFA has been awarded the contract to run the LCFH.

5.4 Enhanced Vetting (EV)

5.4.1 Ealing Council has a risk assessed process of Enhanced Vetting for new recruits into both permanent and temporary posts and involves stringent checks to verify the validity of a candidate and their employment application.

5.4.2 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.

Case study:

Candidate A was a successful candidate for a customer facing post. EV identified the candidate had contrived to provide references from temporary agencies to disguise that they had been dismissed for gross misconduct from their last permanent position. The gross misconduct had related to theft and dishonestly and the candidate was not suitable for the post.

EV Case Assurance Profile - Cases Complete			
Case Status	Cross Council		
	Total	Temp	Perm

Complete	462	82	380
Pass	426	73	353
Fail	11	2	9
Third Party Fraud Referral*	3	0	3
Withdrawn	20	2	18
Agency Fraud	-	-	-
Assignment Ended**	5	5	-

*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.

**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.

5.5 National Fraud Initiative (NFI)

5.5.1 All data sets required from the Council have now been uploaded to the NFI portal. In February 2017 we will be provided with the results of this data match. The Committee will be provided with an update on the progress of the NFI data match at the next meeting.

5.6 Investigation team performance to 31 December 2016

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

A&I, Performance Indicators, Quarter 3 to 31 December 2017

	2015/16 year-end	2016/17 target	2016/17 Q3 target	2016/17 Q3 actual
Intelligence				
Number of new cases started	435	550	412	453
Number of cases passed for	236	375	281	189

investigation				
Average time from receipt of referral to 'Accepted' and forwarded for investigation	21 days	16 days	N/a	12 days
Investigation				
Number of completed investigations	255	250	187	207
Number of cases where fraud established (balance of probabilities)	51	68	51	36
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)	38	68	51	31
Number of council properties recovered (included above)	9	20	15	4
Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation	N/A	£75,000	£56,250	£149,287

5.6.2 The number of cases closed following an investigation up to 31 December 2016 was 207. Of these the number where fraud was proved on the balance of probabilities was 36. The proved actual fraudulent loss incurred by the Council arising from those cases totals £340,308.

5.6.3 In addition to the actual loss, notional savings of £420,344 have also been identified, as detailed below:

The Right to Buy scheme helps eligible council and housing association tenants in England to buy their home with a discount, in London, of up to £103,900. A Right to Buy sale that proceeds based on the provision of incorrect information results in a loss to the authority of a valuable asset at a fraction of its true value.

The 3 Right to Buy applications refused as the result of investigation would therefore provide a notional saving of £311,700.

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.

The 4 council tenancies recovered and the 2 tenancy applications refused following investigation would therefore provide a notional saving of £108,000.

In the Annual Fraud Indicator 2011 the National Fraud Authority estimated that around 500,000 Blue Badges are misused leading to a loss of £46m per year. This equates to a notional loss for a misused Blue Badge of £92.

Seven Blue Badge cases have been proved, providing a notional saving of £644.

5.6.4 The Proceeds of Crime Act (2002) legislation allows the Council to pursue directly from individuals the financial benefits of their criminal activity (for example, cash assets, property etc). This means that a court can award the Council either compensation (recovering actual financial losses) or, through confiscation, recover the benefit of their fraudulent activity (eg. Rental income from sub-letting a Council property). Court orders made under the Proceeds of Crime Act as the result of financial investigations undertaken between April 16-December 2017 total £149,287. This is made up of £74,087 awarded as compensation and £75,200 awarded as confiscation. Compensation will be returned to the council in full, whereas confiscation funds are split, with 50% paid to the Home Office and a maximum of 50% will be paid to the council. It should be noted that although a court order has been made, this is not a guarantee that the money will be recovered from the individual by the court.

6. Financial

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

7. Legal

7.1 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 Social Security Administration Act 1992 (as amended), 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.

8. Value for Money

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

9. Sustainability Impact Appraisal

9.1 Not applicable.

10. Risk Management

- 10.1 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.

11. Community Safety

- 11.1 Not applicable.

12. Links to Strategic Objectives

- 12.1 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'.

13. Equalities and Community Cohesion

- 13.1 Not Applicable.

14. Staffing/Workforce and Accommodation implications

- 14.1 Applications have closed for the permanent Head of Audit and Investigations post. The shortlisting process is underway and interviews will be conducted in December.

15. Property and Assets

- 15.1 Not applicable.

16. Any other implications

- 16.1 None.

17. Timetable for Implementation

- 17.1 Not applicable.

18. Appendices

- 18.1 Not applicable.

19. Background Information

- 19.1 Details of internal audit reports are available to Members upon request from Jeremy Welburn, Interim Head of Internal Audit & Investigations, welburnj@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	15.02.17	15.02.17	Throughout
Ross Brown	Interim Director of Finance	14.02.16	15.02.17	Throughout
Cllr Yvonne Johnson	Portfolio Holder – Finance, Performance & Customer Services			

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: Jeremy Welburn, Interim Head of Audit & Investigations, ext 8571		