



**Report for:
INFORMATION**

Item Number: 10

Contains Confidential or Exempt Information	No
Title	Internal Audit & Investigation Report for Quarter Three 2015
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Portfolio	Cllr Yvonne Johnson - Finance, Performance and Customer Services
For Consideration By	Audit Committee
Date to be Considered	15 March 2016
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	N/A

Purpose of Report:

The attached report provides Audit Committee with an update on the work of Internal Audit & Investigation for the period 1 October – 31 December 2015.

1. Recommendation

- 1.1 It is recommended that Audit Committee notes the performance of the Internal Audit & Investigations team and key issues arising during the period 1 October – 31 December 2015.

2. Reason for Decision and Options Considered

- 2.1 This is a programmed, periodic report outlining the progress of internal audit and investigations functions against the 2015/16 Quarter Three targets, 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 2015/16 Plan will form the main input for the development of the 2015/16 opinion to Council.

- 3.2 The Investigation Team undertakes investigations following allegations of criminal offences committed against the authority. Positive outcomes in respect of detection of fraud have been achieved. A policy of prosecution when sufficient evidence is available and it is in the public interest to do so has been maintained.

4. Internal Audit Performance as at 31 December 2015

- 4.1 The 2015/16 Plan was approved by the Audit Committee in March 2015 and comprised of 750 days. The plan presented was indicative and can be subject to revision during the year to take account of changing priorities and emergent risks. Audit Board monitors progress against the Plan and the S151 Officer and the Director of Finance meets with the Head of Audit & Investigations and the Strategic Partner.

- 4.2 The tables below set out the current status in terms of the delivery of the plan along with the assurance profile given.

2015/16 Audit Plan Status		
Status	Total	Actual %
Draft	18	23
Final	42	52
WIP	3	4
Overdue	-	-
Not Due	17	21
Total	80	100

2015/16 Audit Plan Assurance Profile		
Assurance Level	Total	Actual %
Full	-	-
Substantial	54 (37 Final/17 Draft Stage)	67
Total	80	100

2015/16 Audit Plan Assurance Profile		
Limited	2 (1 Final/ 1 Draft)	3
Nil Assurance	-	-
Follow up	4	5
To be Determined	20	25

4.3 The current assurance opinions provided by Internal Audit are as follows:

Level	Definition
Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Substantial	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.
Nil	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.

4.4 2015/16 Schools Internal Audit Plan

4.4.1 The Schools Internal Audit Plan comprises of the following reviews:

- 30 individual school audits probity audits following a standard audit program;
- A summary assurance review of all Schools who attract Post 16 – 19 Education Funding; and
- A detailed program of follow up reviews including all Priority 1 recommendations made and agreed.

4.4.2 The tables below provide details of the current status with regards to the delivery of the Schools Internal Audit Plan.

2015/16 Audit Plan Status - Schools		
Status	Total	Actual %
Draft	4	13
Final	26	87
WIP	-	-
Overdue	-	-
Not Due	-	-
Total	30	100

2015/16 Audit Plan Assurance Profile - Schools		
Assurance Level	Total	Actual %
Full	-	-
Substantial	29	97
Limited	1	3
Nil Assurance	-	-
Follow up	-	-
To be Determined	-	-
Total	30	100

4.5 Follow up of Recommendations

4.5.1 As part of the process to ensure recommendations and agreed management actions are implemented in a timely manner, a detailed follow up review of recommendations made and due to be implemented in Quarter Three has been completed. Audit Board will note that changes to the approach with regards to the follow up of recommendations have been made to ensure that the follow up process is more effective and completed in a more timely manner. Each quarter, the recommendations due to be implemented in the previous quarter are subject to detailed follow-up to confirm implementation.

4.5.2 The tables below show the results of the follow up activity completed in respect of the Quarter Three P1 & P2 recommendations made and those outstanding from 2014/15:

Non School Audits	P1	P2	P3
No. of Recs raised in Quarters 1, 2 and 3	1	24	3
Outstanding 14/15 Recs brought forward.	13	-	1
To Follow Up	14	24	4
Due to be Implemented by 31/12/2015	12	21	
Fully Implemented	11	20	
Partially Implemented	-	-	
Not Implemented	1	-	
No Response Received	-	1	

School Audits	P1	P2	P3
No. of Recs raised in Quarters 1, 2 and 3	7	99	16
Outstanding 14/15 Recs brought forward.	7	1	-
Total Recommendations	14	100	16
Due to be Implemented by 31/12/2015	14	92	
Fully Implemented	9	49	
Partially Implemented	4	7	
Not Implemented	1	10	
Further testing ongoing	-	26	

4.5.3 The not implemented Priority 1 non-school recommendation relates to the following:

Electrical and Gas Inspections - this recommendation was originally raised as part of a 2014/15 audit, with an agreed implementation date of September 2015. Through discussions with the relevant department we were able to confirm that a resolution to the issue was being actively worked on. A revised implementation date of December 2015 was agreed. However, subsequent information requested regarding the progress of the agreed action has not

been received and so we are unable to verify that this has been implemented. This issue has been escalated to the relevant Director.

4.5.4 The not implemented Priority 1 school recommendation relates to the following:

Wolf Fields School – this recommendation was originally raised as part of a 2015/16 audit, with an implementation date of October 2015. The recommendation regarding a review of the asset register has not been addressed. There is a new Head Teacher and finance staff now in post who have agreed this will be implemented by May 2016.

4.5.5 Partially implemented recommendations will continue to be monitored and any instances of non-implementation reported to subsequent Audit Committees.

5. Counter Fraud and Investigations Performance & Developments

5.1.1 As previously reported to the Committee, Internal Audit & Investigation services are delivered by the Internal Audit and Investigations Shared Service, which has brought together the Internal Audit and Investigation resources of the London Boroughs of Ealing, Hounslow and Brent.

5.1.2 The Shared Service, hosted by the London Borough of Ealing, enhances the Internal Audit and Investigation services delivered to the three boroughs, by bringing together a wealth of experience, improving overall service resilience, whilst also providing the opportunity to share best practice and harmonise counter fraud processes.

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 Investment in Counter Fraud Resources

5.2.1 In view of the increasing fraud risks faced by the public sector, it is important that wherever possible, organisations continue to invest in the counter fraud resources available. To this end, it is pleasing to report that the Shared Service has taken forward two initiatives to continue to train and develop the investigation resources available to the London Borough of Ealing.

5.2.2 In December the first cohort of Investigation officers, successfully completed the chartered Institute of Public Finance & Accountancy (CIPFA) Accredited Counter Fraud Specialist qualification. This will help to improve the skills and

career development of the officers and have the potential to increase the level of skill-set available to each partner in the Shared Service.

5.2.3 Secondly, the investigation team is aiming to improve recovery in respect of proven fraud by using the Proceeds of Crime Act (POCA). Two officers have recently achieved their Financial Investigation accreditation from the National Crime Agency (NCA). In December they also achieved the enhanced qualification allowing them to conduct asset recovery investigations including the effective use of restraint powers under part 2 and/or 4 of the proceeds of crime act, requiring offenders to pay back the equivalent of their benefit from the criminal conduct.

5.2.4 This resource can further be utilised by all internal departments within the Council for financial investigations under POCA. Currently, a number of referrals have been made to the team and which are currently subject of an ongoing investigation.

The investigation team in line with the governments Assets Recovery Strategy will:

- Make greater use of the investigation of criminal assets in the fight against crime.
- Will recover money that has been made from crime or which is intended for use in crime.
- Prevent criminals and their associates from laundering the proceeds of crime
- Will detect and penalise such laundering where it occurs.
- Will use the proceeds recovered for the benefit of the community.

5.3 Council Tax Reduction (CTR)

5.3.1 From the 31 March 2013, the Government ended Council Tax Benefit, and LB Ealing developed its own Council Tax Reduction Scheme. This scheme gives residents a reduction in their Council Tax bill that is broadly similar to the benefit they would have received if Council Tax benefit had continued.

The powers the local authority had to investigate and prosecute Council Tax benefit will not be available for use in the reduction scheme, however replacement powers and offences have been set out in the Detection of Fraud and Enforcement regulations to ensure authorities can secure evidence of wrongdoing and sanction offenders.

5.4 Enhanced Vetting (EV)

5.4.1 Ealing Council has a risk assessed process of EV 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 In this period, 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.

5.4.3 The team are currently working to clear an unprecedented level of cases to provide a complete service across the council. This is reflected in the statistics provided below.

1/4/15 to 31/12/16 EV Case Assurance Profile - Cases Complete			
Case Status	Cross Council		
	Total	Temp	Perm
Complete	735	301	434
Pass	610	198	412
Fail	11	2	9
3 rd Party Referral*	13	4	9
Withdrawn	17	5	13
Agency Fraud	-	-	-
Assignment Ended	96	96	-

*3rd Party 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.

**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

5.5.1 The current exercise used data relating to 2014. The Council received 2,801 recommended matches in February 2015. The table below details the progress made on the key reports. The key reports are the reports used by the NFI team to initially assess the Council's progress and are the reports deemed to be the most important based on previous exercise experience.

NFI key reports	Recommended Matches	Initial Evaluation Commenced	Investigation Initiated	Matches Completed / Closed	Matches to Action
Housing Benefit, NFI Id 2,13,14,14.1, 18,20,23	712	-	-	-	-
Payroll NFI id 66,70,73,80	33	-	-	33	-
Pension NFI Id 52,55,	49	6	-	33	10
Housing Tenancy NFI Id 101,103	14	-	1	13	-
Right to Buy NFI Id 156	97	-	-	97	-
Resident Parking Permits NFI Id 172.3	35	-	-	35	-
Private Residential Care Homes NFI Id 173	15	-	-	15	-
Duplicate records creditor NFI Id 707,708	512	7	-	394	111

- Housing Benefit recommended matches have been referred to the local DWP Fraud and Error Service.
- The Procure to Pay team initially reviewed match ID 708 (duplicate creditor records), which identifies amount and creditor id as a duplicate and not invoice number, as a result there were 473 matches. 60 recommended matches were reviewed and none of them were duplicate matches, they were all periodic payments that had been identified. This report was closed based upon the initial findings by the Procure to Pay team, however a review was

conducted and it was decided that all recommended matches, contained within these key reports would be reviewed due to the amount of money involved.

- The National Fraud Initiative 2014 exercise for the LB Ealing has identified a total of £31,123 in fraud and error to date, which is significantly lower than previous years. An explanation for this reduction can be attributed to the fact that Housing Benefit fraud transferred to the DWP Fraud & Error Service.

5.6 Investigation team performance October to December 2015

5.6.1 Proved fraudulent gain/losses to 31 December 2015 totals £115,194.

5.6.2 In their 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.

The 6 Blue Badge cases that resulted in a sanction would therefore provide a notional saving of £552.

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 2 Right To Buy applications refused as the result of investigations would therefore provide a notional saving of £207,800.

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 8 tenancies recovered following investigation would therefore provide a notional saving of £144,000.

The total of these notional savings for the year to 31 December 2015 is £352,352.

5.6.3 The table below details the performance of the team against the targets that have previously been set.

	2014/15 year-end	2015/16 target	2015/16 profile	2015/16 actual
Intelligence				
Number of new cases started	557	550	458	371
Number of cases passed for investigation	357	375	312	196
Average time from receipt of referral to 'Accepted' and forwarded for investigation	16 days	16 days	N/a	22 days
Investigation				
Number of completed investigations	293	250	208	152
Number of cases where fraud established (balance of probabilities)	56	68	56	34
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)	43	68	56	27
Number of council properties recovered (included above)	17	20	16	8

6. Financial

6.1 All audit and 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 Not applicable.

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 Past counter fraud papers are available upon request from Steven Tinkler, tinklers@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	25/02/16	25/02/16	Throughout
Maria Christofi	Director of Finance (Deputy s151 Officer)	25/02/16	25/02/16	Throughout
Cllr Yvonne Johnson	Portfolio Holder – Finance, Performance & Customer Services	04/03/16		

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: Steve Tinkler, Head of Audit & Investigations, ext 8571		