

Agenda item 3

AGS/42/19	
Report title: Internal Audit and Counter Fraud Progress Report	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes – Head of Assurance	
Date: 16 September 2019	For: Discussion
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County Divisions affected: All Essex	

1. Purpose of Report

- 1.1 This report provides the Audit, Governance and Standards Committee with the current position regarding Internal Audit and Counter Fraud activity in relation to the 2019/20 Internal Audit Plan (approved by the Audit, Governance and Standards Committee in March 2019). It reflects the situation as at 31 August 2019.

2. Recommendation

- 2.1 That the report be noted.

3. Details of Internal Audit and Counter Fraud Activity**3.1 Final Internal Audit Reports Issued**

- 3.1.1 When Internal Audit issues a report it gives an overall assurance rating which is either 'Good' 'Adequate' 'Limited' or 'No' Assurance. The final reports issued since the March 2019 Audit, Governance and Standards Committee are listed below. Executive Summaries for those reports receiving 'Limited Assurance' are set out in Appendix 1.

Full internal audit reports are available to Members on request.

No Assurance

- None

Limited

- Supported Living (Adults)
- Personal Budgets (Adults)
- Carers' Personal Budgets

**Adequate /
Satisfactory**

- EPUT Partnership follow up review
- Essex Child and Family Wellbeing Service
- Identifying Deliverable and Desirable Savings
- Supplier Resilience
- Statutory Reporting
- Declarations of Interest Members and Officers
- Insurance
- Building Security
- TCS Integrated Assurance
- Facilities Management (follow up)
- Identifying Deliverable and Desirable Savings

Good

- Pensions Administration
- Public Health
- Pensions Funding and Investment
- Passenger Transport Entitlement
- Trading Standards
- ECC Companies (follow up)
- School Year End Balances

Other

- Troubled Families Grant
- EU Interreg Grant – SPONGE (preventing flooding)
- EU Interreg Grant - PROFIT (promoting tourism to the Essex coast)
- SELEP Growth Hub Grant
- Carbon Reduction Efficiency Scheme

3.2 Implementation of Internal Audit Recommendations

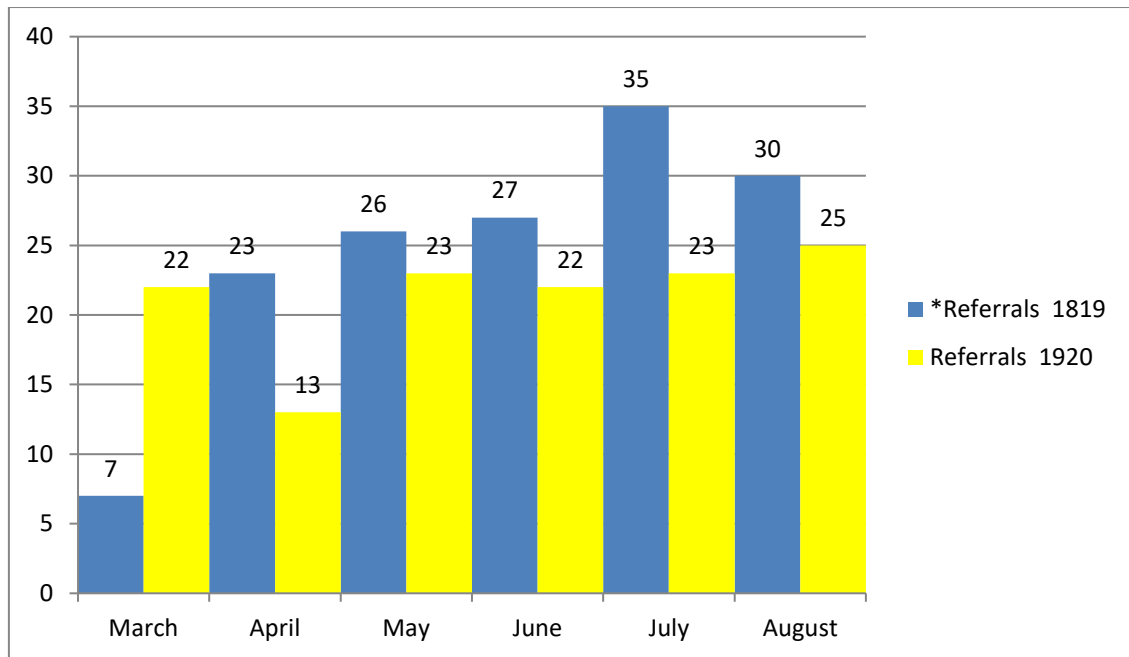
- 3.2.1 Whenever any recommendations are made in an audit report, Managers are asked to agree what activity they will undertake to address the recommendations and to agree timescales for implementation.
- 3.2.2 Progress on the implementation of recommendations is monitored by the Internal Audit service.
- 3.2.3 Critical or Major recommendations which have not been implemented within the agreed timescale are reported to the Audit, Governance and Standards Committee. Outstanding recommendations are provided to Functional Leadership Teams (FLT) quarterly.
- 3.2.4 As at 31 August 2019 there were 5 Critical and 21 Major recommendations open, of which 3 Major recommendations have moved beyond their latest agreed due date. See Appendix 3 for further detail.
- 3.2.5 The current assessment rationale for grading the priority of recommendations made and the level of assurance (audit opinion) for each individual audit review is attached at Appendix 2.

3.3 Counter Fraud Activity

- 3.3.1 The Counter Fraud Team has a remit to prevent, detect and investigate fraud. This includes proactive work utilising data matching and analytical work. In some cases we will pursue sanction through the civil or criminal courts and where possible seek to recover lost/stolen monies.

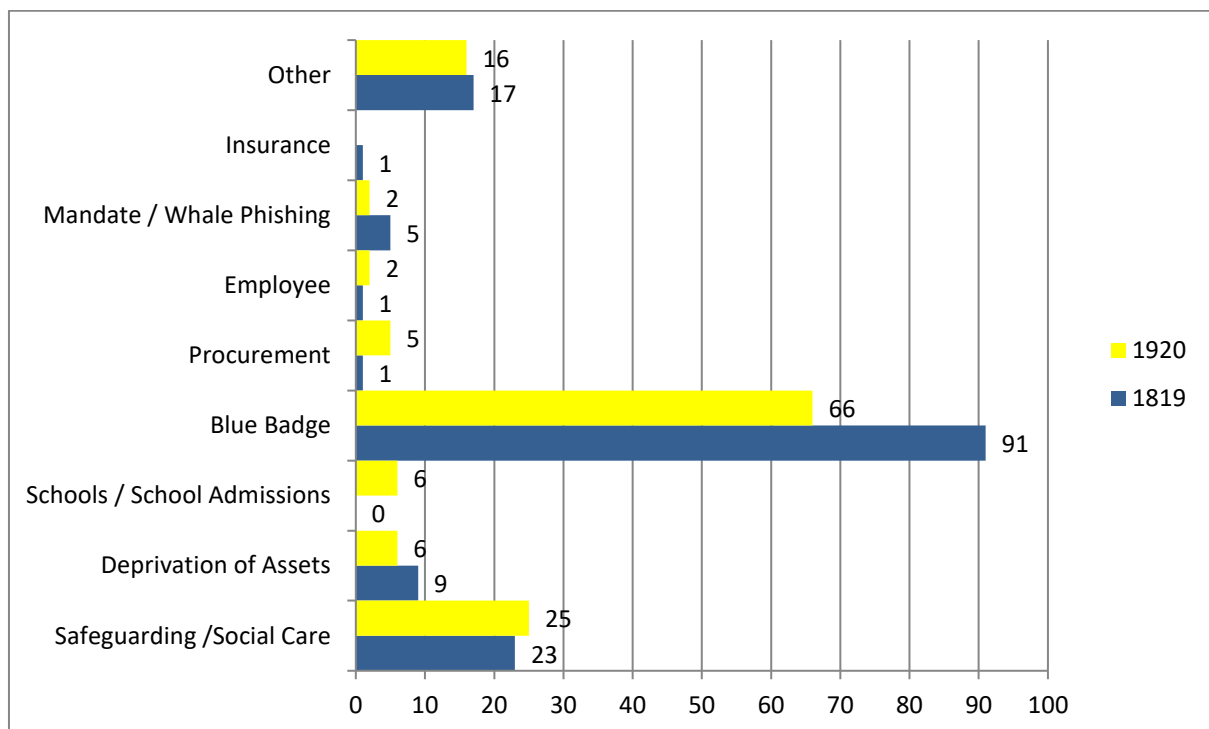
Fraud Referrals

- 3.3.2 During the 6 month period 1 March 2019 to 31 August 2019, 128 referrals were received (including blue badge referrals). The table below shows how this compares to the same period last year and demonstrates that the number of referrals received this year is slightly lower than the same reporting period last year (148 referrals were received during the same period last year, mainly attributable to a slight decrease in blue badge referrals).



Types of Referrals

3.3.3 The bar chart below demonstrates the type of referrals received, with a comparison to the referrals received last year.



Internal Data Matching

3.3.4 The Counter Fraud team now includes a Data & Intelligence Specialist. Data matching / analytical work has commenced in the following areas:

- payroll and expenses to identify potential erroneous, duplicate or fraudulent payments;
- adult social care, direct payments - following an investigation regarding an overpayment of a direct payment for adult social care, further data matching exercises have been completed in the area to ascertain whether this was an isolated error or whether weaknesses in ECC systems have led to further potential overpayments;

To date the data matching exercise has identified 42 potential overpayments that are currently being investigated.

Essex Council Tax Data Matching Initiative

3.3.5 The Council is supporting an Essex-wide data matching project that involves all councils providing data to ensure that income received from council tax is maximised. ECC provides data sets to support the data matching which is now undertaken on a monthly basis and the Counter Fraud Team provides support to districts in dealing with the output. Total cumulative savings recorded as at 19 August 2019 (from July 2017) are **£1,556,457**.

National Fraud Initiative Data Matching Exercise

3.3.6 The National Fraud Initiative is a biennial exercise overseen by the Cabinet Office. This is a mandatory exercise which all public sector bodies participate in, submitting prescribed data sets to the Cabinet Office to facilitate a national data matching exercise to be completed. The Counter Fraud Team submitted all data sets to the Cabinet Office in October 2018. Matches were returned during February and March 2019, the majority of which have been investigated. Matches received included the following (with results of the investigations):

Match criteria	Number of matches returned (for investigation)	Matches Reviewed	Closed / Cancelled on system	Financial savings (£)
Pensions to deceased list	485	485	485	£48,688.64
Payroll to Payroll between different organisations	149	12	12	137 FOR FURTHER REVIEW
Blue Badge holders to deceased list	2,913	2,393	1,629	* 0.00
Concessionary travel passes to deceased list	12,320	12,320	**12,021	
Private residential homes to deceased list	409	409	409	£5,811
Personal budgets to deceased list	29	29	29	£10,176
Personal budgets to pensions (ECC)	67	67	57	10 MATCHES STILL UNDER REVIEW
Personal budgets to pensions (non ECC)	101	54	47	9 FOR FURTHER INVESTIGATION, 47 TO REVIEW
Procurement to Payroll to Companies House (Director)	129	17	17	122 FOR REVIEW

**Financial saving are not directly linked to Blue Badges being cancelled on the system although £575 is attributed to a badge taken out of circulation. Cancellations prevent replacement badges being issued in error.*

***279 annulled on system already. 20 flagged for further investigation as used after the date of death and 3 not accurate matches.*

Further matches were returned from the NFI in August 2019 following a pilot exercise utilising HMRC data. The pilot seeks to better target potential existing and emerging fraud by matching, analysing and disclosing data held by HMRC against a number of NFI datasets. The pilot utilises HMRC data relating to:

- earnings and employment from real time information (RTI), and self-assessment (SA);
- household composition (HHC); and
- property ownership (PO).

This data is matched against adult social care personal budget (direct payments) data sets to identify potential undisclosed capital and assets.

The following matches have been returned to ECC for further investigation:

- 52 Private Residential Care homes to HMRC property ownership
- 115 Private Residential Care homes to HMRC earnings and capital

Cifas Pilot

- 3.3.7 ECC have recently joined the Cifas data matching pilot. This will enable ECC to match their agreed datasets against the national fraud database. Fair processing notices have been updated to reflect the data matching exercise and are accessible on the ECC website.

To date, adult social care data sets have been uploaded to the Cifas database and the matches returned back to ECC are in the process of being investigated.

Fraud Awareness Training

- 3.3.8 At present, 85% of all ECC staff have completed the e-learning modules relating to:

- Anti-fraud and corruption
- Anti-bribery and money laundering.

- 3.3.9 In addition, the Counter Fraud Team have completed bespoke fraud awareness sessions for the following:

- Corporate Debt Team – Support Workers & Operations Team

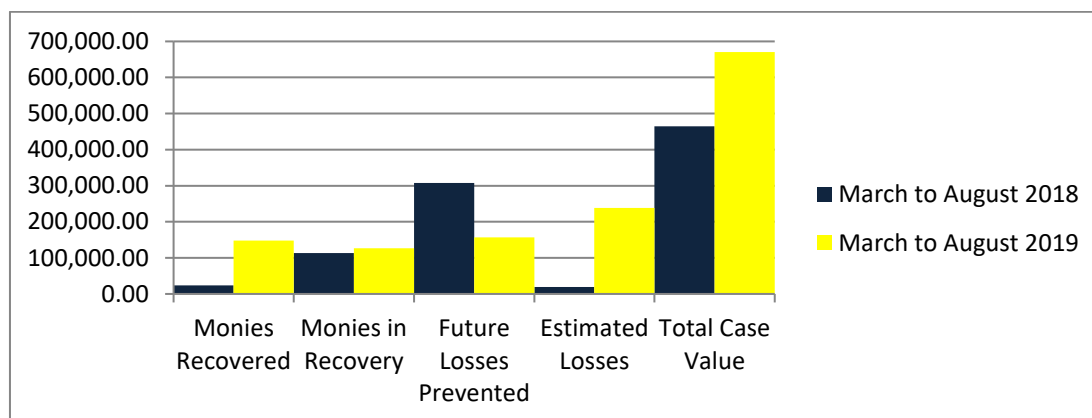
Outcomes

- 3.3.10 During the period 1 March to 31 August 2019, the following outcomes and sanctions have been achieved:

Outcome Type	March to August 2018	March to August 2019
Prosecutions	2	2
Dismissals	1	1
Disciplinary - Mgmt Advice	0	0
Written / Verbal Warning	0	0
No fraud established	13	14
Referred to third party	3	0
Blue Badges – Misuse letter issued	19	11
Blue Badges - Seized	22	15
ASC - Financial recovery	13	10
ASC - PB terminated	3	2
Other	17	14

Financial Recoveries

3.3.11 In addition to the savings identified during the data matching exercise, this quarter, the following financial outcomes have been achieved:



The future losses prevented mainly related to personal budgets (adult social care) which have been reduced or terminated during the year due to fraud or misrepresentation of circumstances, such as care needs have been overstated, misuse of funds, deprivation of assets. Future losses are estimated as the annual value of a personal budget (i.e. the cost to ECC if the personal budget had continued to be paid until the next social care review).

3.3.12 In addition, notional savings of £8,625 have been identified as 15 expired blue badges have been taken out of circulation, each badge being attributed a value of £575 (figure determined by the Cabinet Office).

4. Financial Implications

4.1 There are no financial implications as the Internal Audit and Counter Fraud activity 2019/20 will be met within existing resources.

5. Legal Implications

5.1 Internal Audit is a key way in which councillors can be assured that the Council is using its resources effectively and that the Council is discharging its fiduciary duties concerning taxpayers' money. It helps services to design systems which have appropriate controls and also helps identify and respond to breaches if they occur. This report seeks to update the Audit, Governance and Standards Committee on the activities of the Council's Internal Audit and Counter Fraud service for the purposes of providing further assurance.

6. Equality and Diversity Implications

6.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when ECC makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

6.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. Equality and diversity matters have been considered in the production of the progress report.

7. List of Appendices

- Appendix 1 Executive Summaries for Limited Assurance Reports
- Appendix 2 Current assessment rationale for grading the priority of recommendations in Internal Audit reports.
- Appendix 3 Critical and Major Recommendations which are overdue for implementation as at 31 August 2019

8. List of Background Papers

Internal Audit reports