

Essex County Council

Internal Audit and Counter Fraud Annual Report 2018 / 2019

(Including Chief Audit Executive's Audit Opinion)

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June 2019

Distribution:

- Audit Governance and Standards Committee
- Leader – Councillor Finch
- Cabinet Member for Finance, Property and Housing - Councillor Mohindra
- Chief Executive – Gavin Jones
- Executive Director for Corporate and Customer Services (S151 Officer) – Margaret Lee
- Corporate Leadership Team

Introduction

Welcome to the annual report of Internal Audit and Counter Fraud (IA&CF) providing the Annual Internal Audit Opinion and a summary of the IA&CF activity undertaken in the financial year 1 April 2018 to 31 March 2019.

The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective internal audit service in accordance with proper practices. The UK Public Sector Internal Audit Standards (PSIAS) requires that the Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement (AGS). The Annual Internal Audit Opinion must conclude on the overall adequacy and effectiveness of the organisation's control environment (framework of governance, risk management and internal control).

In March 2018 the Audit Governance and Standards Committee approved the 2018/2019 Internal Audit and Counter Fraud Plan with 2,049 audit days excluding external clients. Progress reports on delivery and outcomes have been provided to the Audit Governance and Standards Committee throughout 2018/2019.

During 2018/2019 the Council has continued to implement significant organisational change. This has proved to be a challenging environment for delivery of a risk based audit plan as many high risk services have been in a state of upheaval at the time of audit. In line with the requirements of the PSIAS, the plan has been reviewed and adjusted, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

In order to provide both the required assurances and support and challenge to services IA&CF have adopted, where possible, a flexible approach during 2018/2019 undertaking health checks alongside the more traditional assurance audits. It has been necessary for audit timings to be variable during the year, however all changes to the audit plan have been both agreed with the S151 officer and reported to the Audit, Governance and Standards Committee.

Chief Audit Executive's Annual Internal Audit Opinion

My audit opinion is based upon, and restricted to, the work we have performed during the year. The opinion does not imply that IA&CF has reviewed and commented on all risks and assurances relating to the Council.



My overall opinion of the internal control environment (framework of governance, risk management and internal control) is one of **adequate assurance**, which means that although there are some weaknesses which may put individual system/process/service objectives at risk of achievement, there is an overall satisfactory system of internal control, appropriately designed to meet the Council's objectives and controls are generally being applied consistently.

This adequate assurance opinion demonstrates that the control environment has remained relatively stable during 2018/2019, with a similar percentage of limited and no assurance opinions compared to the prior year. Our annual Internal Audit Plan is risk-based and this approach means that control weaknesses will be identified because we operate an effective and correctly focussed audit regime.

The Table below shows the range of assurance opinions over the past two financial years.

Assurance Opinion (excluding schools)	% 2017/18	% 2018/19
No	0	3
Limited	30	26
Adequate	35	45
Good	35	26

A summary of our audit opinions on finalised and draft audit reports is detailed below and an explanation of the basis of our opinions, assurance and risk ratings for these reports is included at Appendix A. A full breakdown of the 2018/2019 plan is at Appendix B.

Overview of Internal Audit Activity

Internal Audit Reports Issued Since 1 April 2018 – Assurance Opinions

No assurance

- Essex Partnership University NHS Trust (2018)

Limited

- Engaines Primary & Nursery
- De La Salle School
- Major Incident Management*
- Carers' Personal Budgets*
- Personal Budgets (Adults)*
- Supported Living (Adults)*
- Continuing Healthcare Funding*
- Facilities Management*
- **Cyber Security***

Adequate

- Elm Hall Primary School
- Hazelmere Infant & Nursery School
- Essex Partnership University NHS Trust – follow up (2019)
- Delays in Transfer of Care
- Essex Highways Fees & Charges
- South East Local Enterprise Partnership
- Employment Termination Payments
- Risk Management Maturity**
- Supplier Resilience*
- **Budget Monitoring***
- **Oracle Integrated Assurance** (see Table below)*
- **Business Continuity & Emergency Planning***
- **Identifying Deliverable and Desirable Savings***
- Commercial Property Investment Fund*
- **Declarations of Interests***
- Essex Child & Family Wellbeing Service

Good

- Prettygate Junior School
- School Year End Balances
- Pre-employment Checks
- Active Essex
- Better Care Fund
- Pensions Administration*
- **Pensions Investment***
- **Treasury Management***
- Public Health

*Those reports marked with an asterisk are currently in draft (ie not finalised) but the overall assurance opinion is not expected to change. **Those reports in bold are not yet issued in draft and are an indicative opinion.**

** The Risk Management Maturity Assessment, although not given an overall Assurance Opinion broadly equates to an "Adequate Assurance" rating.

Oracle Integrated Assurance

This audit took a whole-system view of the design and operation of controls within The Corporate System “TCS” in recognition of the integrated nature of the system. A single report was issued which gave an overall opinion of Adequate Assurance. The below table details each process within TCS that was included in the audit and compares opinions between the last two years.

Oracle Integrated Assurance – Assurance Opinions

Process	2017/18 Opinion	2018/19 Opinion	Direction of Travel
Accounts Payable	Adequate	Adequate	↔
Accounts Receivable	Limited	Limited	↑
General Ledger	Adequate	Adequate	↔
Payroll	Adequate	Adequate	↔
Cash receipting and banking	Adequate	Adequate	↔
iExpenses	Adequate	Adequate	↔
Overall	Adequate	Adequate	↔

No Assurance Audit - Essex Partnership University NHS Trust

At the request of the Director of Adult Social Care we reviewed the Section 75 partnership arrangements between ECC and Essex Partnership University NHS Trust. The initial review received an overall opinion of No Assurance and the service director attended the Audit Governance and Standards Committee in December 2018 to explain the position. A follow up audit was subsequently carried out in 2019 at which a significantly improved position was evidenced with an overall opinion given of Adequate Assurance.

Grants and Health Checks

In addition to issuing Internal Audit reports which each receive an overall Assurance Opinion, health checks are carried out during the year; in 2018/2019 we issued health check style reports relating to the following:

- Carbon Reduction Commitment Energy Efficiency Scheme
- Registration Service

We also provide audit services in relation to certifying some grant claims where this is a requirement of the grant terms and conditions and/or we are a designated First Level Controller. Grants audited in 2018/2019 include:

- Troubled Families
- Bus Subsidy Grant
- Local Transport Capital Block Funding Grant
- School Centred Initial Teacher Training (SCITT) Grant
- Interreg – Profit
- Interreg – Sponge
- SELEP Growth Hub

In 2018/19 Internal Audit have maintained oversight of Broadband Delivery UK (BDUK) through the monitoring and review of quarterly performance reports. In addition, each quarterly grant claim and annual return are reviewed by Finance and signed-off by the S151 Officer.

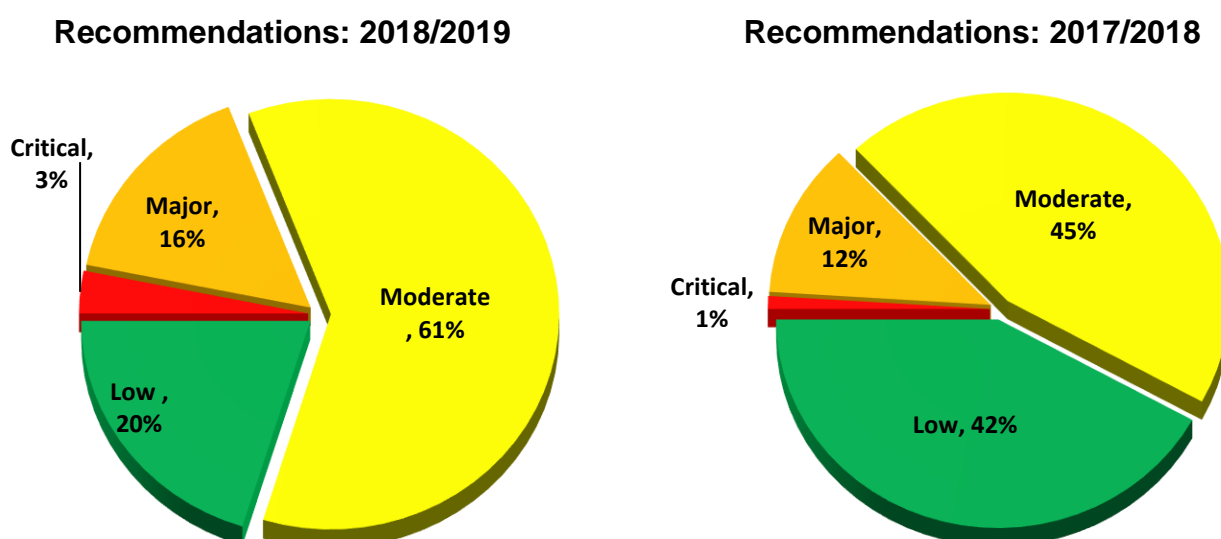
Unplanned Internal Audit Reviews

During the year we carried out some unplanned internal audit reviews usually in response to a previously unidentified risk or concern. The additional audits are marked as such in Appendix B.

Internal Audit Recommendations

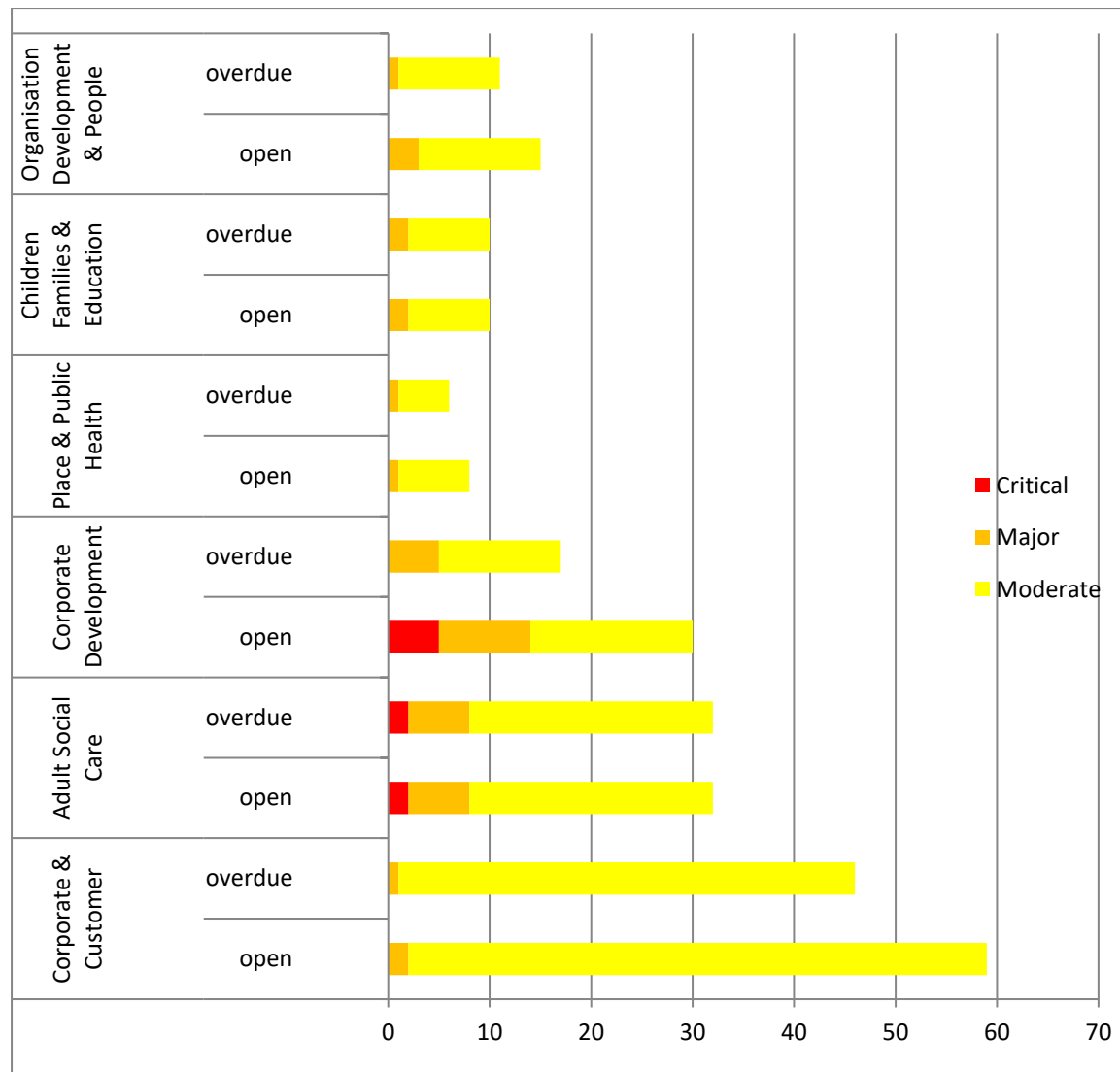
One measure of the effectiveness of Internal Audit is the extent to which recommendations made by them are subsequently implemented. Tracking of Internal Audit recommendations takes place regularly with monthly automated emails being sent to Recommendation Owners to request status updates which they can provide via a web-based system.

The charts below show the range of recommendation ratings made during 2018/2019 compared to the previous year.



Summary reports on outstanding recommendations are presented to Corporate Leadership Team, Corporate Governance Steering Board and Functional Leadership Team meetings on a quarterly basis. The Audit Governance and Standards Committee closely monitor outstanding recommendations and during 2018 the Chairman wrote to a number of recommendation owners to express concern that updates had not been regularly provided. The Table below shows the number of open and overdue recommendations by Function as at 23 April 2019.

Open and overdue recommendations by Function as at 23 April 2019.



Overview of Counter Fraud Activity

ECC has a dedicated Counter Fraud Team who work alongside the Internal Audit Team and report to the Head of Assurance. The Counter Fraud Team are responsible for detecting and investigating a range of fraud matters including those committed by residents, staff and contractors.

Referrals

Referrals come from a range of sources including ECC staff and managers, internal and cross organisation data-matching (including the National Fraud Initiative), external bodies, and the general public. Not all referrals lead to cases being set up and some referrals are forwarded to third parties, i.e. the respective district, borough or city council within Essex, for their investigation.

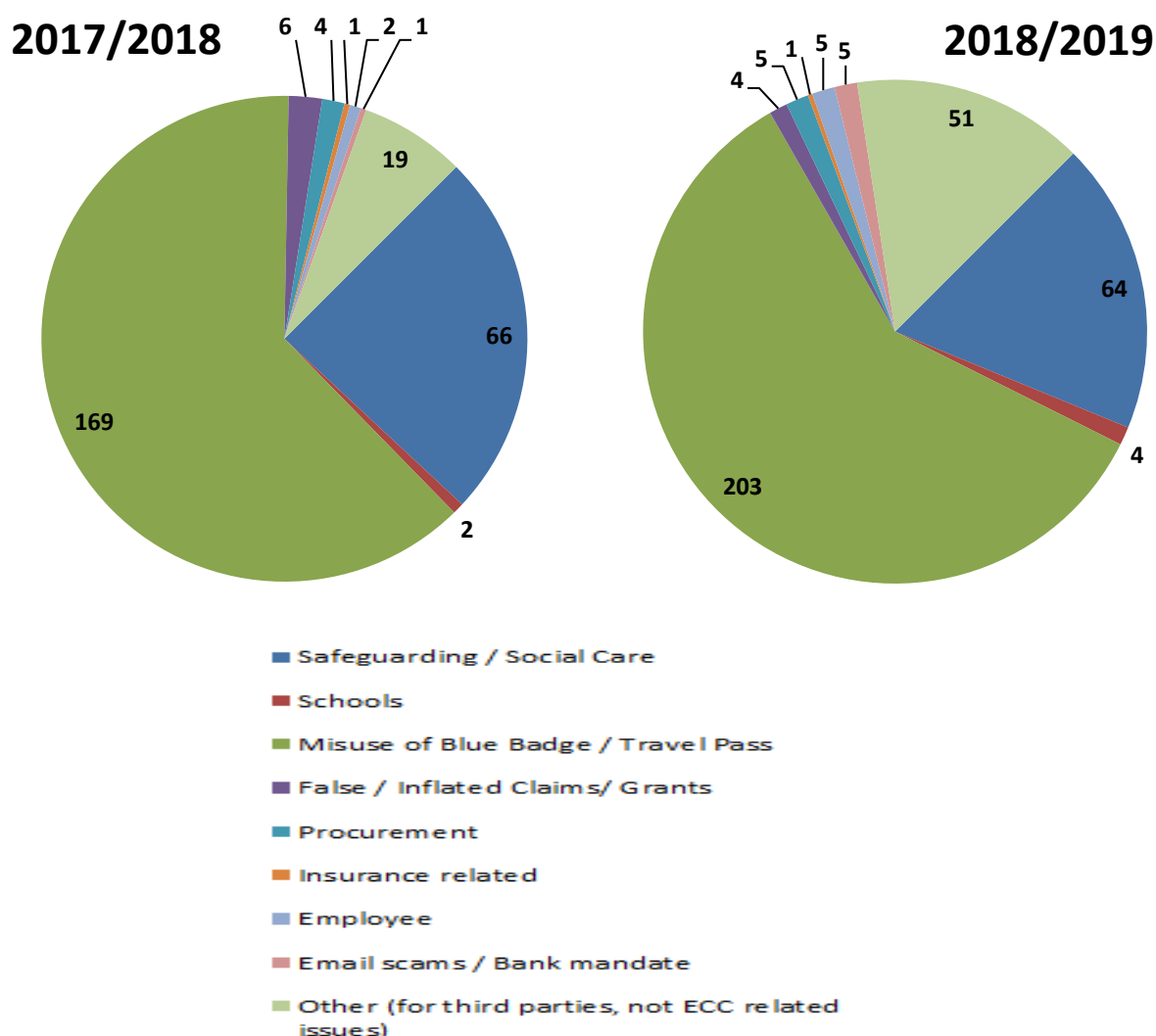
The table below demonstrates the source of referrals, compared with those received last year.

Source of Referral	2017/2018	2018/2019
Web referrals	26	54
Blue Badge - Parking Enforcement Officers	51	54
Blue Badge - Other authorities	18	23
Blue Badge - Members of Public	95	115
Internal – Employees	87	92
Total Referrals	277	338

The charts below¹ show the type of referrals received and provides a comparison with the previous year. During 2018/19 we have seen a slight increase in the number of referrals relating to blue badge misuse. Referrals in other areas have remained broadly consistent with other years.

¹ The figures reported in the table and Pie-charts include referrals from all sources, including those received via the on-line reporting tool. The 2017/18 table and pie-chart has been updated to include this data and is therefore the figures do not compare to those reported in the 2017/2018 Annual Report

Type of referrals received



Outcomes

There are a range of potential outcomes after a case has been investigated. Clearly not all matters that come to our attention will have been caused by fraudulent activity. However when evidence shows wrong doing or criminal activity we will apply appropriate sanction whether that is disciplinary, prosecution or recovery of monies (or a combination of these). The table below shows our sanction activity during 2018/19 and financial recovery.

Sanction Activity	2018/19
Prosecution	2
Dismissal	1
Monies Recovered	£216k
In Recovery	£144k
Future Losses Prevented	£538k

Blue Badge Prosecution

With the assistance of Essex Legal Services, the first in-house prosecution in relation to blue badge misuse was completed during 2018/19. The culprit pleaded guilty to two offences:

1. Using a blue badge when they were not the badge holder – the badge holder was deceased;
2. Failing to surrender the badge for inspection.

The defendant was fined £125 for each offence and ordered to pay £500 towards the Council's costs.

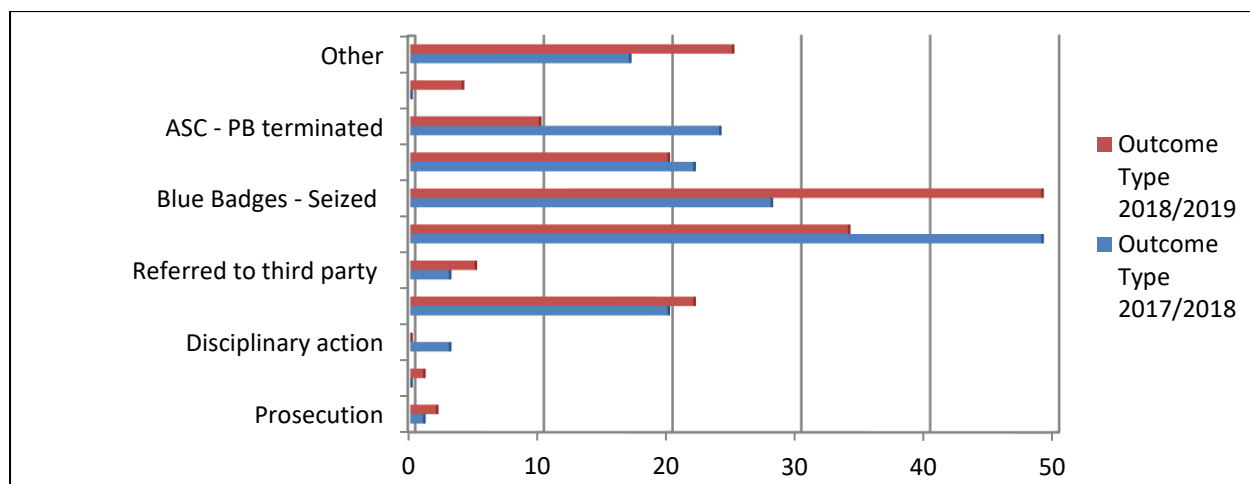
Fundamental Dishonesty Finding

The Council was sued by an individual who claimed to have been injured after tripping on the highway where tree roots had raised the tarmac. He was seeking financial compensation of £4000. After a joint investigation between the Insurance Team and the Counter Fraud Team it emerged the claimant's injuries were actually sustained when a friend jumped on his back. Despite the claimant arguing his case in court, a judge made a finding of fundamental dishonesty against the claimant and did not award any of the £4,000 compensation he was claiming.

The chart below compares our counter fraud outcomes with the previous year.

Outcomes are fairly consistent with previous years although we have seen an increase in scam e-mails where ECC have, on occasion, fallen victim to fraudulent attacks. Many scam e-mails have been detected and payment of any monies to fraudulent bank accounts prevented.

Counter Fraud Outcomes



Risk Management

The Public Sector Internal Audit Standards (standard 2120) require the internal audit activity to evaluate the effectiveness and contribute to the improvement of risk management processes.

Internal Audit gathers the information to support this assessment during multiple engagements including a specific Risk Management assignment. In 2018/2019 we commissioned PwC to conduct a high-level review of the maturity of the Council's risk management arrangements, practices, and capability. The objective of this work was to measure the Council against the Association of Local Authority Risk Managers' (ALARM) national performance model for risk management in public services to identify opportunities for further improvement.

The review concluded that on a maturity scale of 1 to 5, the Council was generally scored as a level 3 meaning that risk management is "working" for the Council. "Working" means the fundamental building blocks for risk management are in place and working adequately, but there are clear opportunities to enhance maturity through further embedding risk management activity into ongoing management, more actively and demonstrably using risk management in planning

and decision making, and better equipping staff to manage risk well. These improvements will also help the Council more clearly understand and demonstrate how risk management contributes to successful outcomes.

It is planned in 2019/2020 to use the insight from this review to inform the planned refresh of the Council's risk management approach.

Effectiveness of Internal Audit and Counter Fraud

Compliance with the Public Sector Internal Audit Standards (PSIAS)

The Head of Assurance must confirm annually that the internal audit function conforms with the Public Sector Internal Audit Standards. In line with our quality assurance and improvement programme, external assessments must be conducted at least once every five years by a qualified, independent assessor from outside the organisation. Our last external assessment was carried out by the Chartered Institute of Public Finance Accountancy (CIPFA) in February 2018 and concluded that "the service is highly regarded within the Council and provides useful assurance on its underlying systems and processes." An Action Plan was put together to address some minor non-conformities with the PSIAS and these have been addressed during the 2018/2019 financial year. One of the actions identified was to include a statement in this Annual Report on independence and objectivity which is detailed below.

Compliance with the CIPFA Code of Practice for Managing the Risk of Fraud

In December 2018 the Council's counter fraud arrangements were assessed against the CIPFA Counter Fraud Code of Practice by using the CIPFA self-assessment tool. A set of 68 statements of performance are graded to provide an overall summary of the Council's position. The assessment is divided into 5 main areas:

- Acknowledge Responsibility
- Identify Risks
- Develop a Strategy
- Provide Resources
- Take Action

The overall summary reported that: *‘The organisation has reached a good level of performance against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. This means that the organisation has put in place effective arrangements across many aspects of the counter fraud code and is taking positive action to manage its risks.’*

Five areas for improvement were identified as a result of this assessment, these are all currently in progress and on target to be completed by September 2019.

Independence and Objectivity

I can confirm that during the 2018/2019 financial year that the internal audit activity has been free from interference in determining the scope of internal auditing, performing work and communicating results.

In addition, I have achieved organisational independence by reporting functionally to the Audit Governance and Standards (AGS) Committee. Examples include the AGS Committee approving the Internal Audit Charter and the Risk Based Internal Audit Plan and the Section 151 officer approving whether services in Assurance should be subject to internal audit during a particular year.

Qualifications of the IA and CF Team

As the Head of Assurance I have assessed the qualifications of the Internal Audit and Counter Fraud Team and I can confirm that all staff hold an appropriate professional qualification or are qualified through extensive experience.

Customer Satisfaction

Feedback is received through Customer Satisfaction Surveys issued at the end of each internal audit review. The survey canvasses the auditee’s opinion on the following areas:

- Professionalism of Internal Audit staff
- Scope of the audit
- Execution of the audit
- Accuracy / timeliness of reporting
- Value of the audit





In 2018/2019, of the 12 surveys that were returned, **100%** of customers expressed satisfaction with all aspects of the service they received. Any concerns raised by auditees are followed up by the Head of Assurance.

Appendices:

Appendix A: Assurance rating definitions

Appendix B: 2018/2019 Audit Plan reconciliation.

Appendix A

Risk rating	Assessment rationale
 Critical	<p>Critical and urgent in that failure to address the risk could lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Significant financial loss (through fraud, error, poor value for money) ▪ Serious safeguarding breach ▪ Life threatening or multiple serious injuries ▪ Catastrophic loss of service ▪ Failure of major projects ▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral ▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage. ▪ Possible criminal, or high profile, civil action against the Council, Members or officers. ▪ Intervention by external agencies <p><i>Remedial action must be taken immediately</i></p>
 Major	<p>Major in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ High financial loss (through fraud, error, poor value for money) ▪ Safeguarding breach ▪ Serious injuries or stressful experience requiring medical treatment, many work days lost. ▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties) ▪ Major Information loss leading to internal investigation ▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion. ▪ Scrutiny required by external agencies <p><i>Remedial action must be taken urgently</i></p>
 Moderate	<p>Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Medium financial loss (through fraud, error or poor value for money) ▪ Significant short-term disruption of non-core activities ▪ Scrutiny required by internal committees. ▪ Injuries or stress level requiring some medical treatment, potentially some work days lost ▪ Reputational damage – Probable limited unfavourable media coverage. <p><i>Prompt specific action should be taken</i></p>
 Low	<p>Low in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Low financial loss (through error or poor value for money) ▪ Minor errors in systems/operations or processes requiring action or minor delay without impact on overall service delivery schedule. Handled within normal day to day routines. ▪ Reputational damage – Internal review, unlikely to have a wider impact.

	<i>Remedial action is required</i>
Level of Assurance	Description
Good	There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be of Low risk rating. Any Moderate recommendations would need to be mitigated by significant strengths elsewhere.
Adequate	Whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk. There are Moderate recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any Major recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
Limited	There are significant weaknesses in key areas in the systems of control, which put the system/process objectives at risk. There are Major recommendations or a number of moderate recommendations indicating significant failings. Any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No	Internal controls are generally weak leaving the system/process open to significant error or abuse or reputational damage. There are Critical recommendations indicating major failings

Appendix B

Internal Audit Plan 2018/19 Reconciliation

✓ = completed i.e. final report issued

UP = additional unplanned audit

Internal Audit Activity	Status as at 15 May 2019
Gifts & Hospitality (Members and Officers) (Monitoring Officer)	Cancelled
Declarations of Interest (Members and Officers) (Monitoring Officer)	In progress
Procurement (Framework, Strategy and Compliance)	Combined with contract management and supplier resilience as one audit
Contract Management	Combined with contract management and supplier resilience as one audit
Disclosure and Barring Service Checks (including Suppliers and Third Parties)	Combined with pre-employment checks audit
Risk Management – maturity assessment	In progress
Health & Safety	Carried forward to 2019/20 Plan
Business Continuity and Emergency Planning	In progress
Supplier Resilience	Draft Report Issued
Commercial Property Investment Fund	Draft Report Issued
Employee Exit Arrangements	Cancelled
Employment Termination Payments	✓
Information Governance	Carried forward to 2019/20 Plan – GDPR Compliance
Financial Reporting and Savings Delivery Management	In progress
Registrars	✓
Absence Management	Carried forward to 2019/20 Plan
Business Support	Cancelled
Workforce Planning	Carried forward to 2019/20 Plan – Strategic Workforce Planning
Organisational Design Phase 2	Cancelled
Staff Performance Management	Carried forward to 2019/20 Plan
Business Partners -- Advice & Guidance	Cancelled
Pre-employment Recruitment Checks and Induction (Permanent & Temporary Staff)	✓
Project and Programme Management	Carried forward to 2019/20 Plan

Internal Audit Activity	Status as at 15 May 2019
Broadband Delivery UK	In progress
Statutory Reporting	In progress
Intelligence & Insight - Performance Management Information	Cancelled but separate audit on statutory reporting
Oracle Integrated Assurance	In progress
Payment Processes	Combined with Treasury Management and Oracle Integrated Assurance
Budget Monitoring	In progress
Pensions Investment	In progress
Pensions Administration	Draft report issued
Treasury Management	In progress
Adult Social Care Payments System (A4W)	In progress
Implementation of Technology Services Re-design	In progress
Digital Foundations Programme	Cancelled
Office 365 Implementation	In progress
Bring Your Own Device	Cancelled
IT Asset Management	Cancelled
IS Security (firewalls/logging & monitoring/anti-virus controls)	In progress
IT Controls - Network and Infrastructure (Penetration Testing/Vulnerability Scanning) (Information Security)	This work has been commissioned by Technology Services from an external supplier
Active Essex	✓
Public Health	✓
Essex Highways Fees and Charges	✓
Capital Programme	In progress
Waste Management	Cancelled
PFI Schemes	Cancelled
Facilities Management	Draft Report issued
Passenger Transport	In progress
Essex Highways Assurance Framework	In progress
Housing Project/Essex Housing	Cancelled
School Establishment Visits: <ul style="list-style-type: none"> Engaines Primary and Nursery School De Le Salle School Elm Hall Primary School Hazelmere Infant and Nursery School Prettgate Junior School 	✓ ✓ ✓ ✓ ✓
School Assurance Mapping	✓

Internal Audit Activity	Status as at 15 May 2019
Analytical Review of Schools Year End Balances	✓
Schools Financial Value Standard	In progress
Education Management System Capita One	Cancelled
Personal Budgets (Adults) / Commissioned Services for the Administration of Service Users Finances / Social Care Prepayment Cards	Draft Report issued
Better Care Fund	✓
Adult Social Care Assessment of Needs	Cancelled
Carers' Personal Budgets	Draft Report issued
Early Intervention and Prevention - Organisational Redesign	Cancelled
Adult Social Care - Income Collection/Debt Management	In progress
Continuing Healthcare (S256)	Draft Report issued
Commissioned services for the administration of service users finances	Combined with Personal Budgets review
Deprivation of Liberty (DoLS)	Not started
Adult Social Care Quality Assurance Framework	Carried forward to 2019/20 Plan
Supported Living (Adults)	Draft Report issued
Delays in Transfer of Care (DToC)	✓
Transforming Care Partnership Work/Section 75 agreement	Cancelled
Social Care Case Management (Mosaic)	✓
Foster Care Payments	Cancelled
Supported Independent Living (Children and Families)	Cancelled
Personal Budgets (Families) (Direct Payments)	Carried forward to 2019/20 Plan
Essex Child and Family Wellbeing Service	✓
Essex Partnership University NHS Trust (UP)	✓
Essex Partnership University NHS Trust – follow up (UP)	✓
South East Local Enterprise Partnership (UP)	✓

Where audits have been cancelled the changes have been agreed by the Section 151 Officer and the Audit, Governance and Standards Committee.