



Internal Audit & Counter Fraud

Progress Report

September – November 2023

Introduction

The Audit, Governance and Standards Committee has a role to maintain oversight and to monitor the effectiveness of internal controls, governance and risk management arrangements as well as the work of Internal Audit and Counter Fraud.

This report provides the Committee with the current position regarding activity in relation to the 2023/24 Internal Audit and Counter Fraud Plan (approved by the Audit, Governance and Standards Committee in March 2023). It reflects the situation as of 30 November 2023.

As part of the Committee's role to assess the adequacy of the Council's internal control environment, the Committee also receives regular updates on progress being made by service areas on whether timely and effective remedial action is being taken to resolve any significant control weaknesses that have been identified through our Internal Audit work.

The activity undertaken by Internal Audit and Counter Fraud in 2023/24, together with the work of other assurance providers, contributes to the Chief Audit Executive's overall annual opinion on the Council's systems of control for inclusion within the 2023/24 Annual Governance Statement.

Internal Audit Activity

Final Internal Audit Reports Issued

When Internal Audit issues a report it gives an overall assurance rating which is either 'Good' 'Satisfactory' 'Limited' or 'No' Assurance. Recommendations are graded as Critical, Major Moderate or Low. **Eleven** final reports have been issued since the September 2023 Audit, Governance and Standards Committee as detailed in the Table below:

Assurance Rating	Audit Title	Recommendations Made			
		Critical	Major	Moderate	Low
Good	Woodcroft Nursery School	0	0	0	3
Good	Risk Management Framework	0	0	0	0
Satisfactory	Essex Owned Companies	0	0	2	0
Satisfactory	Budget Management	0	0	1	0
Satisfactory	Facilities Management Change Request Process	0	0	2	1
Limited	Waste Services (Operational Controls)	0	2	6	1
Limited	Chelmsford North-East Bypass (<i>Specialist Auditor</i>)	0	6	6	3
Limited	Beaulieu Park Station (<i>Specialist Auditor</i>)	0	5	7	2
Limited	Multiply Programme	0	1	2	2
N/A	Cost of Living Support Schemes (Staff)	<i>Assurance opinion N/A – advisory / consultative approach.</i>			
N/A	Volunteering				

Full Internal Audit reports can be provided to Committee Members upon request.

No / Limited Assurance Reviews

Four new Limited Opinion reports have been issued in the period. A summary of key risks/issues are highlighted in the following table:

Audit	Detail
Waste Services (Operational Controls)	<p>A number of linked issues were observed that could potentially have a negative impact and present weaknesses to key areas of control. These could put the overall system/process objectives at risk and therefore improvement in the design and/or operational effectiveness of the control environment is necessary.</p> <p>Two Major, six Moderate and one Low actions have been raised:</p> <ul style="list-style-type: none"> • Connectivity Issues (Major) • Sourcing Processes for the Waste Service (Major) • Expenses (Moderate) • Data & Management Information (Moderate) • Fuel Tanks (Moderate) • Digitalisation of the Waste Service (Moderate) • Training Provision (Employee) (Moderate) • Training Provision (Agency) (Moderate) • Record Completion (Low).
Chelmsford North-East Bypass (Specialist Audit)	<p>A project, the Chelmsford North-East Bypass, part funded by a Central Government Housing Infrastructure Fund (HIF) grant has been commenced. A project governance structure has recently been put in place to manage delivery of the scheme to quality, time and cost.</p> <p>The risk of increasing costs to complete the project was identified as the focus of this work.</p> <p>The areas requiring management action are detailed below.</p> <p>Project Governance (including change Authority)</p> <p>There are twelve recommendations arising from the work in this area.</p> <p>Delivery/Procurement Strategy (Outline Business Case, VM & Options Appraisal and Authorisation to Proceed to Procurement)</p> <p>There is one recommendation arising from the work in this area.</p> <p>Project Initiation (Development/Detailed Planning)</p> <p>There are two recommendations arising from the work in this area.</p> <p>Project Implementation/Delivery (Logs/Registers/Reports)</p> <p>Five issues have been noted (actions are linked to 'Project Governance' area of report).</p>

Beaulieu Park Station <i>(Specialist Audit)</i>	<p>A project, Beaulieu Park Railway Station, part funded by a Central Government Housing Infrastructure Fund (HIF) grant has been commenced. A project governance structure remains to be put in place to oversee and challenge delivery of the scheme by Network Rail to quality, time and cost.</p> <p>The risk of increasing costs to complete the project was identified as the focus of this work.</p> <p>The areas requiring management action are detailed below.</p> <p>Project Governance (including change Authority)</p> <p>There are eight recommendations arising from the work in this area.</p> <p>Delivery/Procurement Strategy (Outline Business Case, VM & Options Appraisal and Authorisation to Proceed to Procurement)</p> <p>There is one recommendation arising from the work in this area.</p> <p>Formation of Contract (with Network Rail)</p> <p>There are three recommendations arising from the work in this area.</p> <p>Project Implementation/Delivery (Logs/Registers/Reports)</p> <p>There are two recommendations arising from our work in this area.</p>
Multiply Programme	<p>Multiply is a £270m government funded programme with the aim to help adults improve their numeracy skills which may help broaden job opportunities as well as helping practically in everyday life.</p> <p>In April 2023 a Cabinet Member Action (CMA) agreed for the programme to set up a two-year Dynamic Purchasing System (DPS), with the option to extend for a further period of up to five years, for a value of £3.2m.</p> <p>Significant weaknesses in key areas of the system of control have been identified, which may put the system/process objectives at risk. One major, two moderate and two low actions have been raised in the following areas:</p> <ul style="list-style-type: none"> • Project Delivery Delays (Major) • Promotional Activity and Materials; Cross-Council Engagement (Moderate) • Project Book; Management Information: Dashboard (Low)

Grant Claims

We have completed a review of the following **grant claims**:

- Supporting Families – Q2 2023/2024 Submission (1,073 returns);
- Local Authority Bus Subsidy (Revenue) Grant: Specific Grant Determination - this includes the Bus Service Operators Grant (BSOG) – a grant to subsidise the

services under tender to local authorities and section 19 community transport services.

Implementation of Internal Audit Recommendations

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. The current assessment rationale for grading the priority of recommendations made is attached at Appendix 1.

Between 1 September and 30 November 2023, the following number of recommendations have been marked as closed (based on justification received from recommendation owners):

Risk Rating	Number Recorded as Closed between 1 September and 30 November 2023
Critical	0
Major	2
Moderate	7
Total:	9

Critical or Major recommendations which have not been implemented within the agreed timescale are reported to the Audit, Governance and Standards Committee.

As at 30 November 2023 there were **13** Major and **55** Moderate recommendations open. There are no open Critical recommendations.

9 of the open **Major** recommendations are more than one month overdue compared to their latest agreed implementation date. This has increased by **3** compared to the number reported in our September 2023 Progress Report.

There are **28 Moderate** recommendations more than six months overdue compared to their latest target date for implementation. This number has increased by 4 compared to that reported in September 2023.

The open Major recommendations as at 30 November 2023 are detailed in Appendix 2.

Changes to the 2023/2024 Internal Audit and Counter Fraud Plan

Minor changes are recommended in relation to delivery of the Internal Audit and Counter Fraud Plan in 2023/24. To assist in the efficiency of delivery and to avoid overburdening services with duplication of information requests it's proposed to merge or remove some audits listed in the 2023/24 plan as follows:

- Establishment Control covered as part of Starters, Leavers, and Movers.

- 'Inflationary pressures' covered as part of the Beaulieu Park and Chelmsford North-East Bypass work.
- Beaulieu Park and Chelmsford North-East Bypass audits had coverage overlaps with the 'Governance and Decision Making' audit so a separate audit will not be needed.

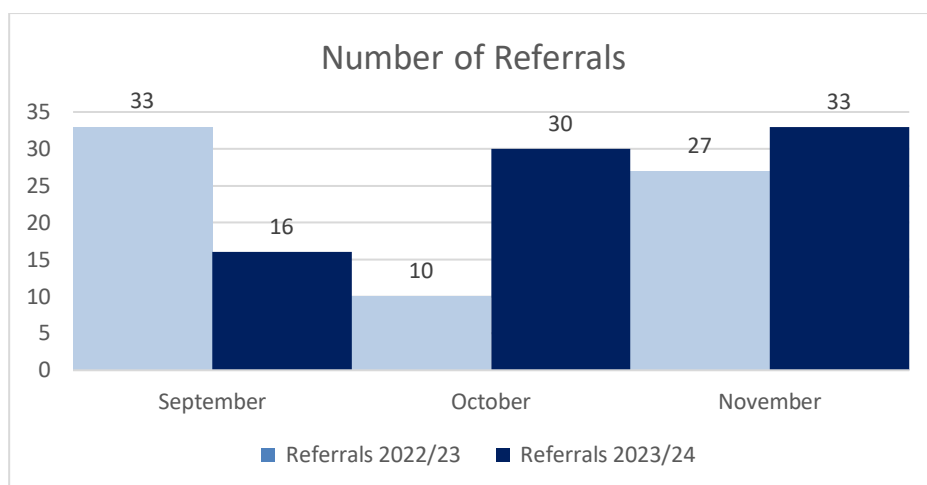
The Internal Audit Team currently have 3 vacancies. A new Senior Auditor will start in January 2024 and recruitment will re-commence in the new year. The audit recruitment market is particularly challenging at the moment. We will continue to mitigate the impact of vacancies on plan delivery by prioritising higher risk audits, using agile audit processes and accessing internal audit support from our Internal Audit framework (APEX) if necessary.

Counter Fraud Activity

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.

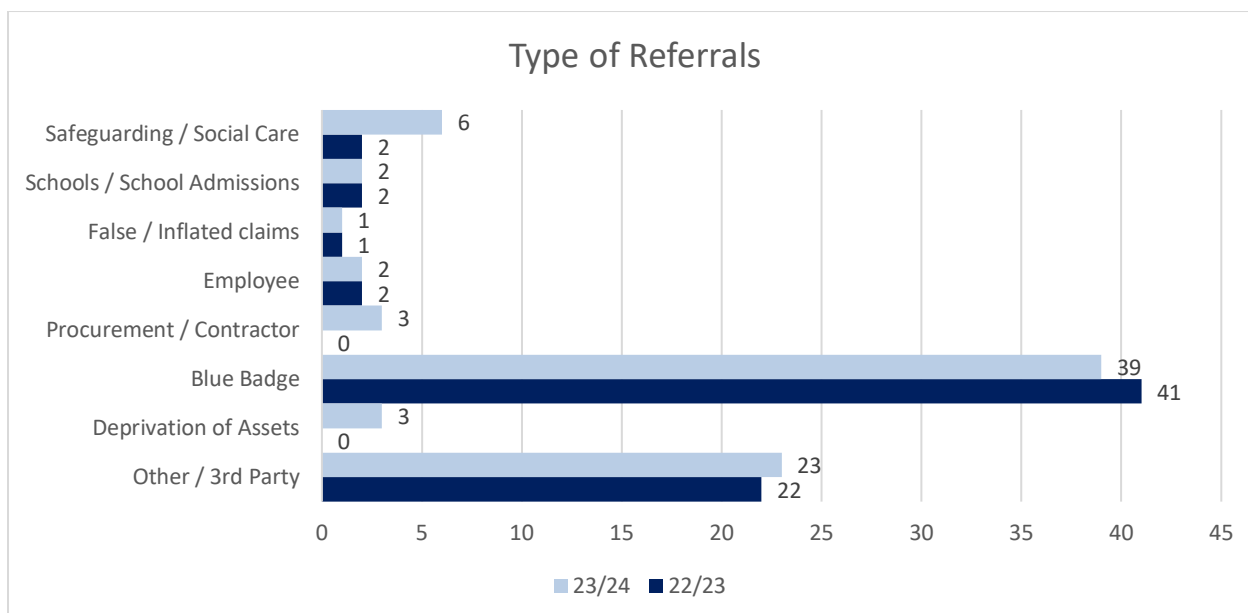
Fraud Referrals

The total number of fraud referrals received for the 3 month period 1 September 2023 to 30 November 2023 is **79**. The total referrals received during the same reporting period for 2022/23 amounted to **70**, therefore we have seen a slight increase this year in the number of referrals.



Types of Referrals

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



Proactive Work

Direct Payment Support Services (DPSS) Exit Arrangements

The Counter Fraud Team have supported the ASC Commissioning Team in relation to the transfer and migration of data from a current DPSS contract provider to Penderels, the new provider of this service. This involves transferring client accounts between providers to ensure that balances are accurately and completely transferred and all supporting documentation is available for review.

The transfer of client accounts has proved to be significantly more problematic than originally anticipated and we are continuing to work with the service area and legal services regarding the transition.

Waste Services

Following the audit of the waste service, the Counter Fraud Team are in the process of completing some follow up work, as agreed by the service area.

Data Matching

An internal data matching exercise has been completed for adult social care data to identify any potential duplicate care packages and inconsistencies between social care case management and finance data e.g. where records of deaths may not have been recorded. During this data matching exercise, no issues were identified.

National Fraud Initiative Data Matching Exercise and NFI Fraud Hub

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. Returned matches are reviewed and investigated as appropriate.

The Counter Fraud Team collated and submitted mandatory datasets during October 2022 and will submit again during September / October 2024.

In addition to the mandatory data matching, the Counter Fraud Team subscribe to the NFI Fraud Hub. Discretionary data matching is permitted on an ad hoc basis, using the same prescribed data sets as submitted as part of the national exercise.

Data sets in relation to ECC Pensions and Blue Badge holders is submitted on a monthly basis and matched to the mortality listing. Resultant matches for Blue Badge data is reviewed and the Blue Badge system updated accordingly. Matches relating to pension information is sent to the ECC Pension Team for investigation / suspension.

Since September 2023, a further 128 matches have been forwarded to ECC Pensions for their review. To date, £180.75 has been recovered from these matches and 17 matches being reviewed.

From March 2020, when ECC joined the Fraud Hub, savings have been recorded as **£109,105** in relation to pension payments that have been recovered.

Fraud Awareness Training

As at 30 November 2023 the percentage of staff that have completed the recently refreshed e-learning modules relating to the fraud modules are as follows:

- 83.2% - Anti-fraud and corruption
- 83.3% - Anti-bribery and money laundering.

Staff who have not yet completed the modules have been reminded to do so.

Additional bespoke training sessions have been completed as follows:

- Understanding Fraud in Adult Social Care (one session for the Essex Social Care Academy)
- Fraud awareness for the new team administering the social care workforce retention and training funding grant scheme

Counter Fraud Outcomes

During the period 1 September 2023 to 30 November 2023, the following outcomes and sanctions have been achieved:

Outcomes	1 September 22 – 30 November 23	1 September 23 – 30 November 23
Prosecutions	0	0
Disciplinary Action	2	3
No Fraud Established	41	7
*Referred to third party	35	29
Blue Badge - Misuse Letter Sent	9	2
Blue Badge - Seized	9	6
ASC - Financial Recovery	3	0
ASC - PB terminated/reduced/advice provided	2	3
Other - Financial Recovery	0	0
Other - Misuse Letters	0	0
Payment Prevented	0	0
**Other	4	2

**Referred to third party, include mainly referrals received via the website which relate to either housing benefit, council tax, DWP benefit related issues which are referred to the relevant district/ borough/ city council.*

***Other outcomes include:*

- *Referrals to the Deputyship Team where Power of Attorney not in place,*
- *Revision of financial assessments where non-disclosure of assets or deprivation of assets identified,*
- *Additional guidance & support provided where potential misuse of personal budgets.*
- *Additional guidance provided in instances where weaknesses in the control framework have been identified.*

Summary of Current Cases

During the last three-month period, the Counter Fraud team have received referrals relating to:

- potential deprivation of asset cases;
- misuse of council assets, one case which resulted in disciplinary action against two ECC employees;
- discrepancies with contractor recording / charging ECC;
- potential financial abuse of an ECC service user;
- misuse of adult social care direct payments.

Financial Recoveries

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

1 September 2023 – 30 November 2023	
ACTUAL - Monies Recovered	0
ACTUAL - Monies in Recovery	0
NOTIONAL - Future Losses Prevented	0
NOTIONAL - Estimated Losses**	11,376.34
TOTAL	11,376.34





**The estimated losses relate to the misuse of a direct payment. The monies were unable to be recovered as the service user is now deceased.

Notional savings of £3,900 have also been identified (not included in the above table) as 6 expired blue badges have been taken out of circulation, each badge being attributed a value of £650 (figure determined by the Cabinet Office).

List of Appendices

- Appendix 1 Current assessment rationale for grading the priority of recommendations in Internal Audit reports.
- Appendix 2 Open Major Recommendations.

Appendix 1 Current assessment rationale for grading the priority of recommendations in Internal Audit reports

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>Remedial action must be taken immediately</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>Remedial action must be taken urgently</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>Prompt specific action should be taken</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. <p>Remedial action is required</p>
Assurance Level	Description
Good	Good assurance – 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.
Satisfactory	Satisfactory assurance – 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	Limited assurance – 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	No assurance – 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 2

Open Major Internal Audit Recommendations as at 30 November 2023

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
Personal Budgets (Families) (Direct Payments) (1718 C2)	Monitoring and Review Implement a robust process to ensure all cases with Direct Payments are managed effectively, including monitoring of spending.	31/12/18	29/01/21	19 May 2023: The change over from Purple to Penderels is at full steam, it has been an opportunity to have a deep dive into cases and issues with weekly meetings alongside adults to address these. Adults remain ready to take on the monitoring of the childrens DP and we are waiting for the paper to get finances agreed. 26 July 2023: A business case for an officer to join the Adults monitoring team is now with Helen Lincoln whilst we make a decision how to proceed and where we will get the funding from.	Director Local Delivery, Children and Families	Major
Review of Utility Invoice Processes (1920 PPH8)	Energy Profile Audits: In line with the contractual agreement all properties should have an Energy Profile Audit conducted every 12 months and be reported in line with the template provided in the contract.	31/12/20	30/04/22	14 March 2023 There have been further discussions held in terms of a number of areas within the specification document and awaiting final confirmation from Mitie in terms of the updated document which is expected very shortly. The formal contract change notice can then be progressed in terms of ensuring that any changes that are linked to the profile audits are reflected in the contract. We are looking at setting up a shared site where the Energy Profile Audits can be stored as well as arranging the regular meetings for these to be discussed. 09 June 2022: A follow up of this audit occurred in the 2021/22 financial year, the final report was issued 21/03/22. Review of Energy Profile Audits is being picked up as part of the wider review of the D2 Specification for Energy as well as ongoing discussions around reporting and streamlining the provision of management information systems to be able to provide this.	Procurement Specialist	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
IT Disaster Recovery (2021 F19)	IT Disaster Recovery Testing	30/09/22	31/01/24 (not yet due)	8 August 2023: The SQL Cluster failover remediation work continues with infrastructure changes scheduled for mid-August. This has caused some slippage with DR testing rescheduled for November.	Head of Technology Operations	Major
	Incomplete Business Impact Analyses (BIA)	30/09/22	30/09/23	8 August 2023: The first-round Recovery Time Objective (RTO) analysis has been shared with EP&R. This constitutes part A of the audit action and will now enable a detailed reconciliation in order to: 1. Follow up any gaps with the business services and confirm requirements 2. Identify the supplier relationship where this is not with TS 3. Identify any legacy/moved apps services 4. Identify business RTOs where none have been specified. This is dependent on the joint initiative with EP&R and Service/BC Leads collaboration as part of previous audit - Feasibility of Recovery Time Objectives. This action is timetabled to run to March 2024, so this action can either be now closed or run in parallel with that audit action. Deferring close date to September 2023 pending decision. Pending outcome of 424 BIA gap analysis and any associated RTO renegotiations, together with the feed of recovery prioritisations derived from Exercise Zephyr and the Cloud programme.	Head of Technology Operations	Major
Country Parks (2021 PPH9)	Stocktake and Reconciliations	31/12/21	30/06/23	10 November 2023: Market engagement exercise (PIN) commenced on 01/11/23 and hoping to digest results of that engagement / feedback pre-Christmas, with papers to be produced and presented in Q4 for next steps, including potential outsourcing.	Commercial Operations Manager	Major
	Absence of a stock write off and stock discounting procedures	31/12/21	30/06/23	10 November 2023: Per update above. Short term control measures and cover / acting up arrangements remain in place in the interim period.	Commercial Operations Manager	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
Essex Traveller Unit (2021 PPH6)	Site Management Plan	31/03/22	31/03/23	30 September 2022: A follow up review was undertaken. There was evidence of increased engagement with Councillors, ECC Services, District and Borough Councils, and Heads of Service, which was enhancing the Service's visibility across ECC. Funding decisions were yet to be agreed. As such, the financial constraints in which the Gypsy & Travellers Service was working were considered to still be in place, impacting on the future planning for the Service. This recommendation still remains open. The last revised due date was March 2023. However, no further update has since been provided.	Wellbeing, Place and Communities Lead	Major
Section 106 Agreements (2223 EIPH4)	Database Functionality	31/10/23		No update provided.	Strategic Development Lead	Major
	Closure of Projects	30/04/23		No update provided.	Assistant Accountant	Major
	Identifying s106 Opportunities	15/02/24 (not yet due)		No update provided.	Director Sustainable Growth	Major
Corporate Property Strategy (2223 CS19)	Asset Management System	11/08/23		30 October 2023: The consultant has produced a report with recommendations. There is a phased approach to change proposed. We are also currently working on the strategy for the procurement of the Mitie / LSH contract (expires in Sep 26) – so this will be a consideration in that work. Need to review findings and initiate the next stages. This will be managed through the Estates Transformation Programme.	Director: Property and Investment and Delivery	Major
Absence Management (2223 PT1)	Management assurance around sickness documentation and evidence	31/03/24 (not yet due)		No progress update provided.	Employment Practice & Consultancy Lead	Major
	Carry forward of annual leave balances	31/03/24 (not yet due)		No progress update provided.	Head of People Insight and Technology	Major