

<b>Report title:</b> Internal Audit and Counter Fraud Progress Report	
<b>Report to:</b> Audit, Governance and Standards Committee	
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<b>Date:</b> 28 September 2020	<b>For:</b> Discussion
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<b>County Divisions affected:</b> 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 2020/21 Internal Audit Plan (approved by the Audit, Governance and Standards Committee in July 2020). It reflects the situation as at 31 August 2020.

## **2. Recommendation**

- 2.1 That the report be noted.

## **3. Key Issues**

- 3.1 The following matters are of particular note:

- No reports with 'no assurance' have been issued during the period
- One audit has been completed that received limited assurance – Accounts Receivable. This report has been issued to members in full and the service will attend the committee to provide explanation and an update.
- As at 8 September 2020 there were four Critical and fifteen Major recommendations open, of which six Major recommendations have moved beyond their latest agreed due date.
- Fraud Referrals are significantly lower than the same period last year, due to the Covid-19 pandemic.
- Using the NFI data hub £185,054.23 has been recovered related to overpayments to Residential Care Homes.

## **4. Details of Internal Audit and Counter Fraud Activity**

### **4.1 Final Internal Audit Reports Issued**

- 4.1.1 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 2020 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	<ul style="list-style-type: none"> <li>• None</li> </ul>
Limited	<ul style="list-style-type: none"> <li>• Accounts Receivable</li> <li>• IT Major Incident Management – follow up review</li> </ul>
Satisfactory	<ul style="list-style-type: none"> <li>• Control Account Reconciliations</li> <li>• Cyber Security</li> <li>• Journals and Virements</li> <li>• Supplier Resilience</li> <li>• Risk Management – follow up review</li> <li>• Deprivation of Assets and Deferred Payments</li> <li>• Schools Income</li> <li>• South East Local Enterprise Partnership</li> <li>• Coroners</li> <li>• Office 365</li> <li>• Payroll</li> <li>• The Corporate System (TCS) – Change Management</li> <li>• Country Parks Income</li> </ul>
Good	<ul style="list-style-type: none"> <li>• Workforce Strategy Planning</li> <li>• Approval Management Engine ("AME")</li> <li>• Essex Pension Fund - Administration</li> <li>• Essex Pension Fund – Funding and Investments</li> <li>• Members Locality Funds – phase 1</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Troubled Families Grant</li> <li>• EU Interreg Grant – SPONGE (preventing flooding)</li> <li>• EU Interreg Grant - PROFIT (promoting tourism to the Essex coast)</li> <li>• EU Interreg Grant - EMPOWER</li> <li>• SELEP Growth Hub Grant</li> <li>• Covid-19 Bus Services Support Grant</li> <li>• DfT Blue Badge New Criteria Implementation (No 31/2936)</li> <li>• M11 Junction 7A Business Case Costings</li> <li>• Ongoing support to the Oracle Fusion Programme</li> </ul>

## **4.2 Implementation of Internal Audit Recommendations**

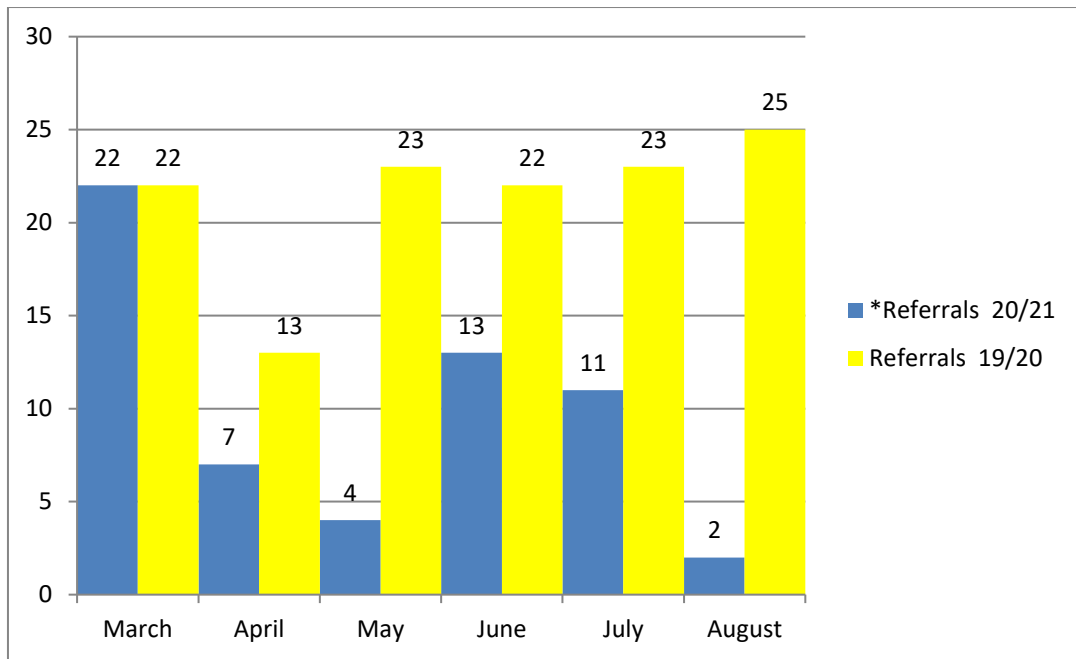
- 4.2.1 Whenever any recommendations are made in an audit report, Managers are asked to agree what activity they will undertake to address the recommendations and to agree timescales for implementation.
- 4.2.2 Progress on the implementation of recommendations is monitored by the Internal Audit service.
- 4.2.3 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.
- 4.2.4 As at 8 September 2020 there were 4 Critical and 15 Major recommendations open, of which 6 Major recommendations have moved beyond their latest agreed due date. See Appendix 3 for further detail.
- 4.2.5 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.

## **4.3 Counter Fraud Activity**

- 4.3.1 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.

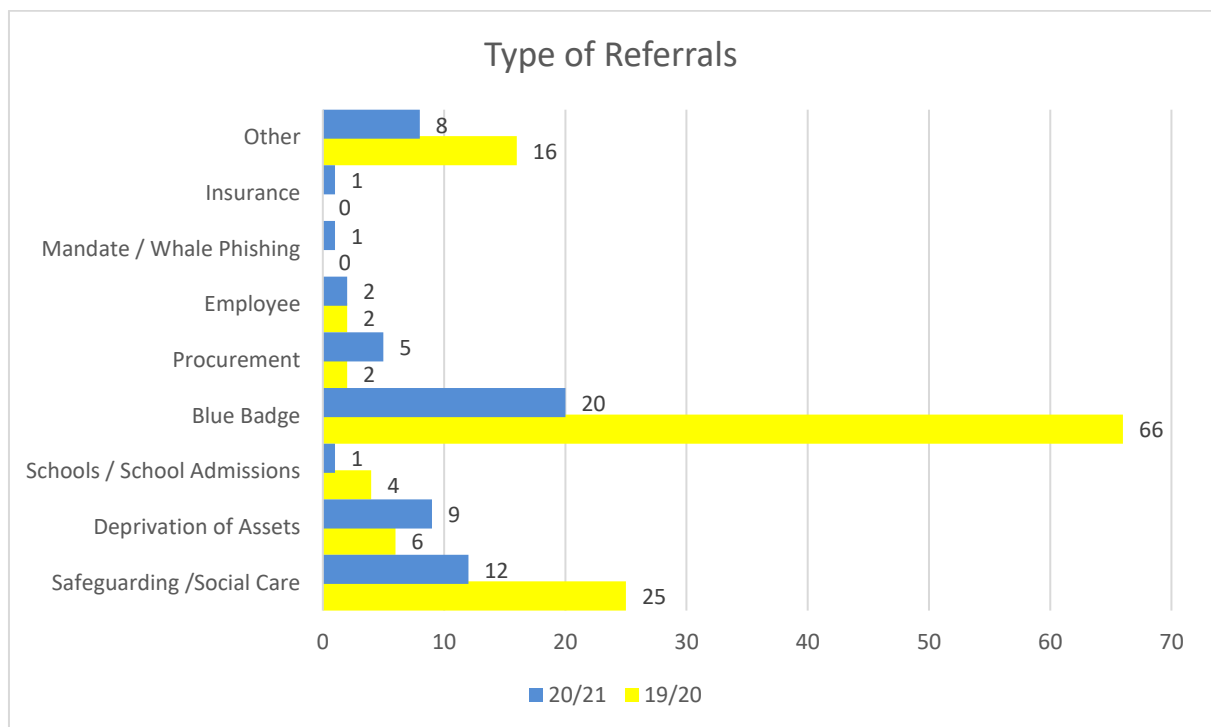
### **Fraud Referrals**

- 4.3.2 During the 6 month period 1 March 2020 to 31 August 2020, 59 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 lower than the same reporting period last year (128 referrals were received during the same period last year). This is largely due to the impact of the Covid-19 pandemic, the fact that blue badge enforcement was suspended for the first 3 months of the reporting period and referrals in relation to social care were reduced as Adult Social Care re-prioritised their resources during the pandemic. Face to face monitoring reviews have been suspended; although a new team, the Direct Payment Monitoring Team, has been established who will review Direct Payment accounts. It is envisaged that referrals in relation to adult social care will increase once this team is fully operational.



### Types of Referrals

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



## **Internal Data Matching**

4.3.4 The Counter Fraud team now includes a Data and Intelligence Specialist. Data matching / analytical work has been completed during the 6 month period in the following areas:

- payroll and expenses to identify potential erroneous, duplicate or fraudulent or unusually high payments;
- adult social care, predominantly to cleanse data between the social care case management system and the payment system. The latest review resulted in some 79 records being highlighted for update.
- Adult social care – an analysis of care packages to identify where domiciliary and residential care packages overlap and may not have been fully closed down on the system – testing is currently underway.

## **Essex Council Tax Data Matching Initiative**

4.3.5 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 August 2020 (from July 2017) are **£1,943,529**.

## **National Fraud Initiative Data Matching Exercise and NFI Fraud Hub**

4.3.6 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 are due to submit datasets to the Cabinet Office in October 2020. Matches are scheduled to be returned for investigation during February and March 2021.

4.3.7 In addition to the mandatory data matching, the Counter Fraud Team subscribed to the NFI Fraud Hub in March 2020. 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 relating to Adult Social Care and Pensions have been uploaded and matched to the mortality listing. These matches have been investigated and where ECC had not been notified of the respective death, records have been updated and further payments have been prevented. This reduces the reputational damage to ECC by making payments after the date of death and also trying to pursue monies paid in error. The following savings to ECC during the last 5 month period:

Data Set	Number of matches	Financial Savings
Residential Care Home to Deceased	47	£185,054.23 - all recovered
Personal Budgets to Deceased	4	£19,404.24 – (recovery not yet calculated)
Pensions to Deceased	73	£57,040.88 (£35,107.38)

*Note – the Cabinet Office are currently investigation the legislation regarding patient data. We are unable to submit adult social care datasets for matching purposes pending the results of this review.*

### **Cifas Pilot**

- 4.3.8 ECC joined the Cifas data matching pilot in early 2019. To date, data sets from ECC have been submitted for matching in relation to adult social care, pensions and insurance claims. Although several matches to mortality records were identified, there has been limited use in the service. We are currently in negotiation with Cifas regarding the future of the scheme.

### **Fraud Awareness Training**

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

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

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

- Direct Payment Monitoring Team
- Social Work Team – Local Delivery South

- 4.3.11 During the Covid-19 pandemic, the Counter Fraud Team have worked with several service areas to provide advice and guidance as new processes and procedures were put in place to deal with changing circumstances and the need to distribute additional funding to providers in a prompt and efficient way, whilst still maintaining a robust control framework with minimal exposure to fraud and error. The Counter Fraud Team have supported the following functions during this period:

- ELS Deputyship Service – procedures to send cash to clients
- Operation Shield – procedures to distribute supplies and support to Essex residents
- Procurement – distribution of Adult Social Care (ASC) funding

## Outcomes

4.3.12 During the period 1 March to 31 August 2020, the following outcomes and sanctions have been achieved:

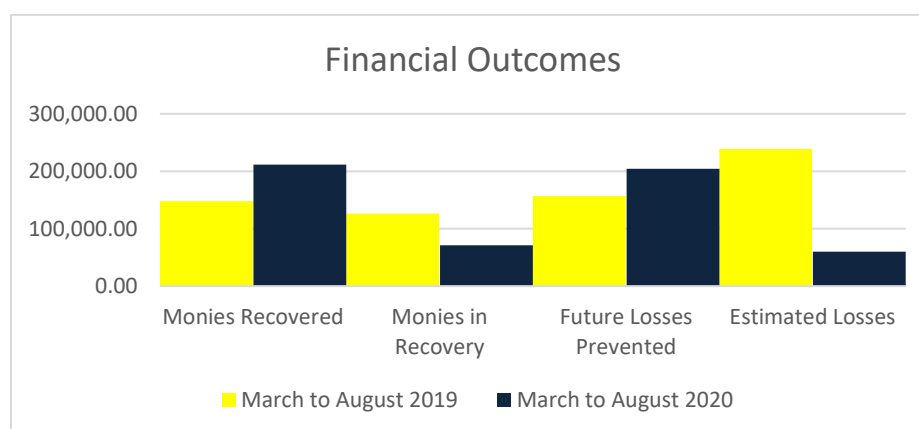
Outcome Type	March to August 2019	March to August 2020
Prosecutions	2	0
Dismissals	1	0
No fraud established	14	14
Phishing / Referred to third party	0	1
Blue Badges – <b>Misuse letter issued</b>	11	0
Blue Badges - Seized	15	1
ASC - Financial recovery	10	9
ASC - PB terminated	2	6
*Other	14	10

\*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,
- Reduction of Personal Budgets.

## Financial Recoveries

4.3.13 In addition to the savings identified during the data matching exercise, this period, 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).

- 4.3.14 In addition, notional savings of £575 have been identified as 1 expired blue badge has been taken out of circulation, each badge being attributed a value of £575 (figure determined by the Cabinet Office).

### **Annual Assessment against the Fighting Fraud & Corruption Locally (FFCL) Checklist**

- 4.3.15 The Counter Fraud Team have completed an annual assessment of the Councils position in relation to the robustness and effectiveness of their fraud arrangements and culture, using the revised FFCL Checklist. The checklist is attached at Appendix 4 and demonstrates that ECC is almost 95% compliant.

## **5. Financial Implications**

- 5.1 There are no financial implications as the Internal Audit and Counter Fraud activity 2020/21 will be met within existing resources.

## **6. Legal Implications**

- 6.1 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.

## **7. Equality and Diversity Implications**

- 7.1 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.
- 7.2 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.



## **8. 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 2020
- Appendix 4 Completed Assessment against the Fighting Fraud and Corruption Locally Checklist

## **9. List of Background Papers**

Internal Audit reports