

Report title: Internal Audit and Counter Fraud Progress Report		AGS/24/18
Report to: Audit, Governance and Standards Committee		
Report author: Paula Clowes – Head of Assurance		
Date: 10 December 2018		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 2018/19 Internal Audit Plan (approved by the Audit, Governance and Standards Committee in March 2018). It reflects the situation as at 30 November 2018.

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 September 2018 Audit, Governance and Standards Committee are listed below. Executive Summaries for those reports receiving 'Limited Assurance' or 'No Assurance' are set out in Appendix 2. Full reports are available to Members on request.

No	<ul style="list-style-type: none"> • None
Limited	<ul style="list-style-type: none"> • Personal Budgets (families) • De La Salle School
Adequate	<ul style="list-style-type: none"> • Programme and Project Delivery • Delays in Transfer of Care
Good	<ul style="list-style-type: none"> • Analytical Review of School Year End Balances
Other	<ul style="list-style-type: none"> • Troubled Families Grant • Registrars – health check review • DfT Integrated Transport Grant

3.2 Review of the 2018/19 Internal Audit Plan

3.2.1 At the end of September 2018, the Head of Assurance carried out a full half year review of the Internal Audit and Counter Fraud Plan. Required changes were reported to the Executive Director of Corporate and Customer Services (Section 151 officer) and are listed below.

Plan Ref	Audit Title	Justification for cancelling / deferring
Cancelled Audits:		
C1	Gifts & Hospitality (Members and Officers) (Monitoring Officer)	Good Assurance rating received for last three years. No system changes in current year.
C11	Employee exit arrangements	Risks will be covered to a certain extent by leavers testing in Payroll audit and C12 Employment Termination Payments review
C17	Business Support	Intended scope was to carry out a health check to assess whether the new structure, staffing and working practices are effective. However, the new Design Authority approved structure is not due to be fully implemented until late 2019. This will be reconsidered in 2018/19 when new service design agreed.
C19	Organisational Design Phase 2	Audit was intended to take place following the end of the Organisational Design programme, to assess whether the Council has established robust means to monitor whether the desired outcomes are achieved and is able to control further changes to structure and staffing. This will be deferred until 2020/21
C20	Staff Performance Management	From 2018/19 it is no longer mandatory for Supporting Success to be recorded and monitored using Perform and staff performance management is under review corporately. This will be reconsidered when planning for 2019/20.
KF2	Payment Processes	Good Assurance in 2017/18. Coverage of controls over online banking will be picked up in our Accounts Payable/Oracle Integrated Assurance audit and Treasury Management review as appropriate
ICT4	Bring Your Own Device (BYOD)	The focus of the BYOD programme at this time does not add significant risk with take up currently low.
IE3	Waste Management	There is currently a contractual dispute and an Internal Audit is not feasible at this time. The risks are being managed via the Strategic Risk Register.

IE4	PFI Schemes	Commercial reviewed PFI Schemes in 2017/18, including benchmarking and outcome of review was favourable. External audit also review as part of their annual audit of the accounts.
E5	Education Management System Capita One	Good Assurance in 2017/18 - finalised in December 2017. Some enhancements made to system in current year but not expected to materially affect the risks.
ASC5	Early Intervention and Prevention - Organisational Redesign	A number of other audits in the Plan will provide assurance in this area eg budgetary control, personal budgets, quality assurance framework. New organisational design not sufficiently embedded yet so timing would not be right for a separate audit on this. There has also been a corporate wide lessons learned process.
CF2	Supported Independent Living	Not required as at the scoping of this review stage it was discovered that another review is going on in this area at present which duplicates what we were going to do and also has more resources devoted to it than we could provide.
Deferred to 2019/20 Audits:		
ICT5	Asset Management	We are monitoring progress made implementing the most recent recommendations from the Internal Audit of Asset Management and will provide challenge when recommendations are stated by the service as implemented. Procurement for the supplier of asset management services was abandoned so they are not further forward implementing the recommendations at this time.
C13	Information Governance	Last audit report was issued in June 2018 and received Adequate Assurance. The IG Team is currently going through organisational redesign.
C16	Absence Management	Limited Assurance in 2017/18 - final report issued in July 2018 and recommendations arising from that review are being tracked. Some implementation dates are not due until end of 2018/19 financial year.
C18	Workforce Planning	Deferred to 2019/20 given roll out of Corporate Workforce Strategy.

C21	HR Business Partners advice and guidance	Audit coverage was to assess whether there are comprehensive and clear employee relations processes for line management to follow and whether there is sufficient material / guidance / support to facilitate the effective discharge of the roles. New structure very recently implemented and has had no time to embed. Will be considered for 2019/20.
C23	Project and Programme Management	Partly covered by the savings delivery audit in 2018/19 and Adequate Assurance was given in late 2017/18.
CF3	Personal Budgets (Families) (Direct Payments)	Deferring to early next financial year as 2017/18 follow up audit was only finalised in October 2018. It was Limited Assurance and progress in implementing recommendations is being tracked via TeamCentral.

3.3 Implementation of Internal Audit Recommendations

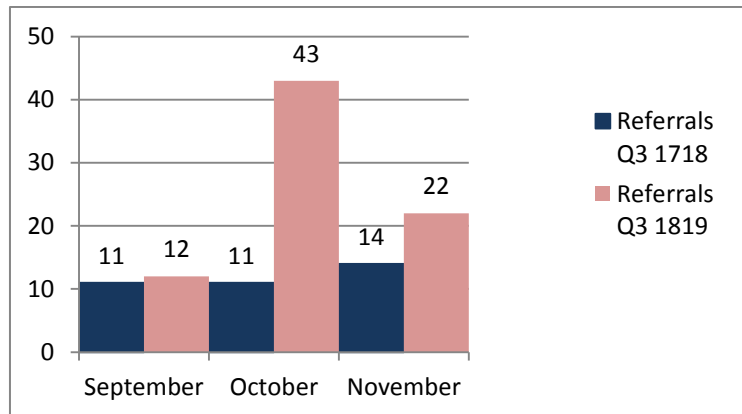
- 3.3.1 Whenever any recommendations are made in an audit report, Managers are asked to agree what activity they will undertake to address the recommendations and to agree timescales for implementation.
- 3.3.2 Progress on the implementation of recommendations is monitored by the Internal Audit service.
- 3.3.3 Critical or Major recommendations which have not been implemented within the agreed timescale are reported to the Audit, Governance and Standards Committee. Reports on outstanding recommendations are provided to Functional Leadership Teams (FLT) quarterly.
- 3.3.4 As at 21 November 2018 there were 8 Critical and 26 Major recommendations open, of which 1 Critical and 12 Major recommendations have moved beyond their latest agreed due date. See Appendix 3 for further detail.
- 3.3.5 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 1.

3.4 Counter Fraud Activity

- 3.4.1 The Counter Fraud Team (2.6fte) has a remit to prevent, detect and investigate fraud. In some cases we will pursue sanction through the civil or criminal courts and where possible seek to recover lost/stolen monies.

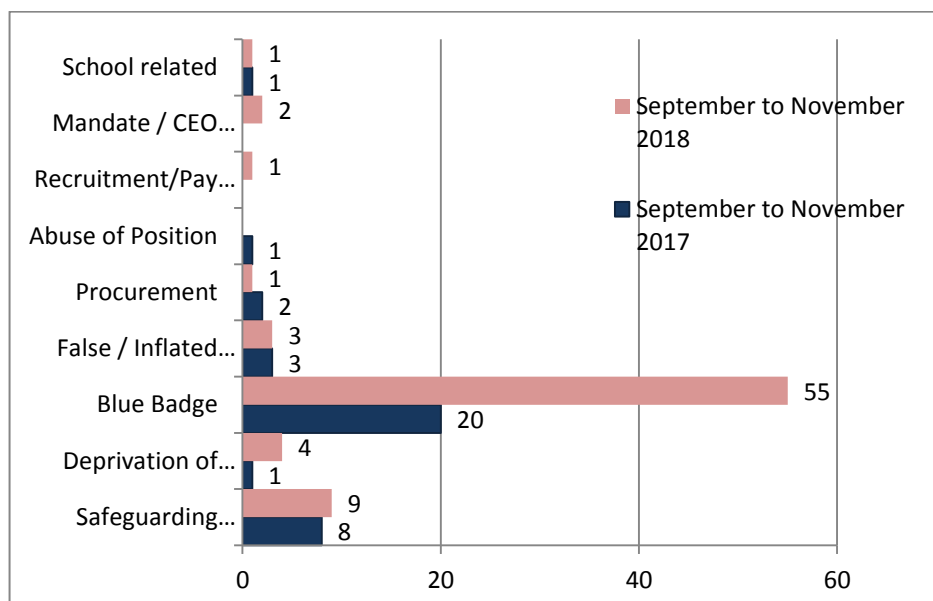
Fraud Referrals

3.4.2 During the 3 month period 1 September to 30 November 2018, 77 fraud 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 higher than last year (36 referrals received during the same period last year). Fraud Awareness Training sessions for the Parking Enforcement Officers may account for the increase in blue badge referrals.



Types of Referrals

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



Current Themes

3.4.4. During the last quarter the Counter Fraud Team have seen an increased number of phishing and bank mandate frauds. One Essex primary school made payment to a supplier after receiving a notification that the bank details

had been changed. The payment of £81,787.80 was paid to a rogue account as the notification was fraudulent and the supplier had not changed their account details. The Counter Fraud Team is pursuing the investigation in conjunction with the ECC Financial Investigator.

Three other Essex schools have received fraudulent invoices purporting to be from Zurich for insurance cover. The issue has been reported to Action Fraud and a general notification issued to all Essex schools informing them of the scam. We have not received any reports of any payments being made to the fraudulent bank account.

Internal Data Matching

3.4.5 In May 2018 the Counter Fraud team started an internal data matching exercise, focussing on Adult Social Care data. Adult Social Care payments have been recognised nationally as a significant fraud risk to local authorities who have reported significant fraud losses¹. The objective of this data matching exercise is to:

- Identify and rectify duplicated packages – i.e. open domiciliary & residential care packages (where a cash payment is being made)
- Identify and stop payments that are being paid to service users who are deceased
- Identify and stop payments that are being made to service users who are in receipt of health funding (and no longer entitled to social care funding)

3.4.6 A further data matching exercise was added during Q2/3 to match recipients of ECC pensions to service users in receipt of a social care package. The aim of the match was to ensure that income had been accurately declared and recorded during the financial assessment.

3.4.7 This project is in its infancy but early results suggest that significant savings and recoveries can be realised using this approach. Investigation work is ongoing, although savings of **£57,256** were identified in quarter 1. Further data matching exercises have been completed at the end of quarter 2, with the resultant matches being investigated.

Essex Council Tax Data Matching Initiative

3.4.7 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 30 November 2018 (from July 2017) are **£780,425**.

¹ <http://www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker>

National Fraud Initiative Data Matching Exercise

- 3.4.8 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 at the beginning of October 2018 and anticipates that resultant matches will be returned for investigation during January and February 2019.

Fraud Awareness Training

- 3.4.9 The Council re-launched the corporate e-learning in 2017. At present, 85% of all ECC staff have completed the e-learning modules relating to:

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

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

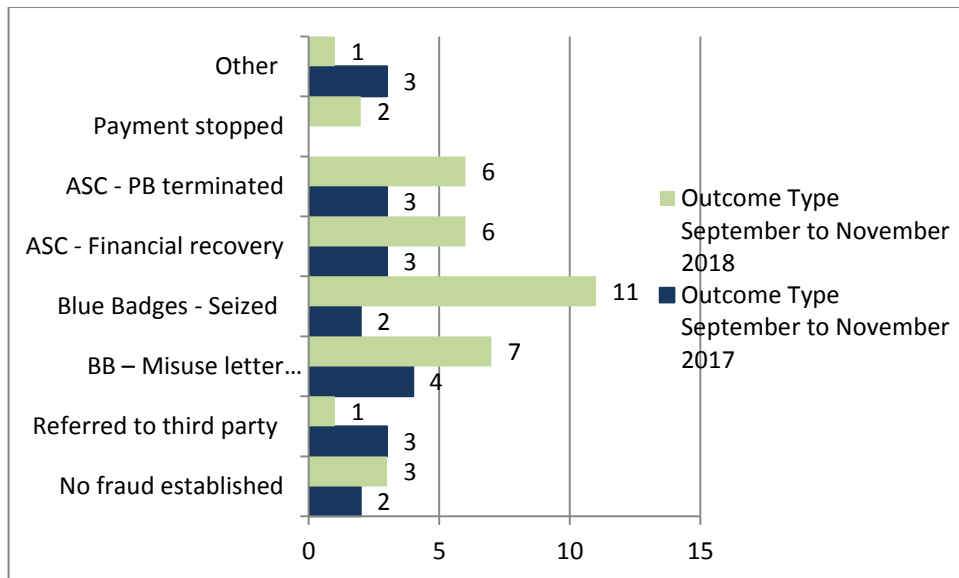
- Customer Service Centre
- Civil Enforcement Officers - ie those who enforce parking and other traffic contraventions.

International Fraud Awareness Week 11 – 17 November 2018

- 3.4.11 The Counter Fraud Team promoted International Fraud Awareness week during week commencing 12 November 2018. Internal communications were posted to the intranet, and a stall with posters and leaflets was manned in the atrium at County Hall. Staff were reminded of the need to remain vigilant at all times, informed of ways to protect themselves from becoming a victim of fraud and reminded of how to report issues should they suspect fraud.

Outcomes

- 3.4.12 During the period 1 September to 30 November 2018, the following outcomes and sanctions have been achieved:



CIPFA Counter Fraud Assessment Tool

3.4.14 .The Councils counter fraud arrangements have been 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. The organisation is performing well against the counter fraud code and is actively working towards its resilience to fraud and to manage its fraud risks. There are some areas of weakness which could undermine resilience and these should be reviewed. In addition, the organisation should consider further opportunities to develop and extend the effectiveness of its counter fraud arrangements.’*

The 5 areas for improvement identified as a result of this assessment have been included at Appendix 4 of this report, with action points and target dates for implementation.

Financial Recoveries

- 3.4.15 In addition to the savings identified during the data matching exercise, this period **£85,616** (*year to date £109,645*) was recovered related to fraud matters and a further **£26,319** (*year to date £139,490*) was identified and in the process of being recovered.
- 3.4.16 It is estimated that during the reporting period **£204,991** future losses were prevented. These 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).
- 3.4.17 Notional savings of £8,050 (year to date £20,700) have been identified as 14 (year to date 36) 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 2018/19 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 - Current assessment rationale for grading the priority of recommendations in Internal Audit reports.

Appendix 2 - Executive Summaries of 'Limited Assurance' and 'No Assurance' Internal Audit reports.

Appendix 3 – Critical and Major Recommendations which are overdue for implementation as at 13 November 2018

Appendix 4 - Summary of results against the CIPFA Counter Fraud Code of Practice.

8. List of Background Papers

Internal Audit reports