Report title: Internal Audit and Counter Fraud Progress Report	
Report to: Audit, Governance and Standards Committee	
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Date: 27 September 2021	For: Discussion
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County Divisions affected: All Essex	

1.   Purpose of Report

1.1   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.

1.2   This report provides the Committee with the current position regarding activity in relation to the 2021/22 Internal Audit and Counter Fraud Plan (approved by the Audit, Governance and Standards Committee in March 2021). It reflects the situation as of 31 August 2021.

1.3   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.

1.4   The activity undertaken by Internal Audit and Counter Fraud in 2021/22, 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 2021/22 Annual Governance Statement.

2.   Recommendation

2.1   The progress in audit and counter fraud activity be noted.

3.   Key Issues

3.1   The following matters are of particular note:

- No reports received a 'No Assurance' rating during the period

- Four audits finalised since the June 2021 AGS Committee meeting have received a 'Limited Assurance' rating.

- As at 14 September 2021, 4 Major Internal Audit recommendations are more than one month overdue and 15 Moderate recommendations are more than 6 months overdue compared to their latest target implementation dates.

- A full review of the 2021/2022 Internal Audit and Counter Fraud Plan has been conducted in September 2021 and no changes are being required to be reported to, or approved by, this Committee.

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' 'Satisfactory' 'Limited' or 'No' Assurance. Nine final reports have been issued since the June 2021 Audit, Governance and Standards Committee as detailed in the table below:

Assurance Rating	Audit Title
Good	Permanent Recruitment
Good	Microsoft Teams Project
Satisfactory	Continuing Healthcare
Satisfactory	Remote Working Resilience *
Satisfactory	Change Management (The Corporate System) *
Limited	Income System
Limited	IT Asset Management *
Limited	Country Parks – Stock Control *
Limited	Essex County Wide Travellers Unit *

* These were reported in the Head of Internal Audit's Annual report in June 2021 but at that stage were only issued as draft reports but have since been finalised.

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

4.1.2 Limited Assurance Reviews – Executive Summaries

Income System

The Council transitioned to a new income system in February 2020. The Internal Audit review identified one Major and three Moderate risk actions covering the following areas:

- Evidence of back up arrangements, stress testing and disaster recovery

(*Major*)

- Key performance indicator (KPI) reports and contract management arrangements (*Moderate*)

- Access permissions (*Moderate*)

- Updating the E-learning training course (*Moderate*)

Since the findings were discussed with the auditee, the service manager has been proactive in putting together a business continuity plan that will be reviewed by the Emergency Planning and Resilience Team. It is further anticipated that when the contract (for the provision of the income system) gets novated to the Council in the Autumn 2021 that the controls will improve and there will be better management information oversight.

<u>IT Asset Management</u>

ECC has a large and complex IT asset estate consisting of around eight thousand desktop and laptop computers, plus tablets / mobile phones and servers. To ensure value for money and robust security, it is important that all appropriate IT assets are tracked throughout their lifetime and disposed of securely. Assets should be recorded as they go through the build process and when issued, logged against a known user or physical location. On reaching end of life the assets should then be tracked to a point of secure disposal / destruction. Asset management is an important tool in preventing data breaches, potential loss through fraud and / or financial loss to the Council.

The previous IT Asset Management Internal Audit report, issued in June 2018, received a Limited Assurance opinion with four Major priority recommendations. The current audit identified that some improvements have been made since the prior audit, for example, the process for disposing of assets. However, solutions have yet to be implemented which sufficiently mitigate the risks previously identified.

At the time of the audit, Technology Services (TS) were in the process of transitioning to a new application for the tracking of IT assets and this is expected to help improve the control environment due to its added functionality and embedded controls. TS are also recruiting a short-term contractor to review the asset management processes in place and recommend / implement improvements.

This review identified control weaknesses in the areas of:

- IT infrastructure forward planning *(Major)*
- the processes for capturing the leavers' information, asset tagging, recording of warranty information, decommissioned assets and lost or stolen assets *(Major)*
- hardware audits and key performance indicator (KPI) reporting *(Major).*

<u>Country Parks – Stock Control</u>

Recommendations were made to address weaknesses in controls relating to the shops and cafeterias around:

- Stock control, reconciliations and monitoring (*Major*)
- Stock write off and discounting of perishable goods. (*Major*)
- Separation of duties in the recording, reconciliation and banking of income (*Moderate*)
- Food portion sizes (*Moderate*)

At the conclusion of the audit, a Food and Beverage Manager was being recruited who it was expected will advise on issues such as procedure documents and monitoring arrangements on operations within the cafeterias to help mitigate the risk areas the internal audit review identified.

<u>Essex County Wide Travellers Unit</u>

A representative from the Service will attend this Committee meeting to provide an update on progress in implementing the recommendations made. Recommendations identified included the following areas:

Site management plan *(Major)*

Site risk assessments *(Major)*

Vacant pitches *(Moderate)*

Debt recovery *(Moderate)*

Delivery standards *(Moderate)*

Policies and procedures *(Moderate)*

Scrutiny arrangements *(Moderate)*

4.1.3 In addition, we have completed the following **grant claims**:

- LECSEA – Local Energy Communities for the 2 Seas Region
- South East Local Enterprise Partnership (SELEP) Growth Hub Core Funding
- SELEP - Supplemental Funding
- SELEP - Peer Network Funding
- SELEP - EU Transition Funding
- Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance) Specific Grant Determination 2020/21: No 31/5036
- Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Determination 2020/21 (31/5013)

- Local Authority Community Testing Funding Grant Determination 2020/21: No 31/5327

4.1.4 As well as the above activity, Internal Audit have supported a number of significant programmes and initiatives during the quarter including the following.

The Corporate Systems Programme

ECC has recently been undergoing a Programme to replace The Corporate System (TCS) with Oracle Fusion, named locally as My Oracle. My Oracle includes Payroll, Financials (such as purchasing, invoicing, employee expenses, capital programme, budgeting and forecasting) and Human Capital Management (HCM).

My Oracle launch date is on track for 4 0ctober 2021 with countdown communications currently being issued across ECC and the legacy system (TCS) functionality now being restricted as the cutover period is entered.

Internal Audit have been supporting the Programme throughout its lifecycle and advising on any significant control design changes and will continue to do so as these systems form a significant part of the overall assurance opinion the Chief Audit Executive is required to report on annually to this Committee.

Essex Resilience Forum

We supported the Essex Resilience Forum by undertaking a quality assurance exercise regarding its recent Covid-19 Outcome Review. The aim of this review was to provide, an independent (but high level) view on whether the Covid-19 response feedback process was reasonable and we provided independent assurance to confirm that the processes subsequently used to collate and report back on the findings from the above exercise were also reasonable.

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 also provided periodically to Functional Leadership Teams (FLT).

4.2.4 As at 14 September 2021 there were 3 Critical, 12 Major and 58 Moderate recommendations open.

The three Critical recommendations relating to a prior year review of IT Disaster Recovery (DR) will soon be closed and new Major recommendations opened as a result of a recent IT DR review whereby Internal Audit have confirmed that the risks have been partially mitigated.

4 of the Major recommendations are more than one month overdue compared to their latest agreed implementation date. However, 2 of these are currently subject to follow up reviews and are expected to be closed when the reviews are finalised. The other 2 Major recommendations are detailed in Appendix 2.

There are 15 Moderate recommendations more than six months overdue compared to their latest target date for implementation.

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 1.

**4.3   Changes to the 2021/2022 Internal Audit and Counter Fraud Plan**

4.3.1 In September 2021 a full review of the 2021/2022 Internal Audit and Counter Fraud Flexible Plan was carried out including progress to date on the delivery of the Plan and no reviews have been deferred or cancelled with the exception of a small number of site visits to schools which are expected to be resumed shortly (these were described as "flexible" within the Plan).

4.4   Counter Fraud Activity

4.4.1 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

4.4.2 During the 6 month period 1 March 2021 to 31 August 2021, 112 referrals were received (including blue badge referrals). The table below shows how this compares to the same reporting period last year and demonstrates that the number of referrals received this year is higher than the numbers received last year (59 referrals were received during the reporting period March to August last year). We are now experiencing a return to near normal levels for most areas.

Referrals per Month
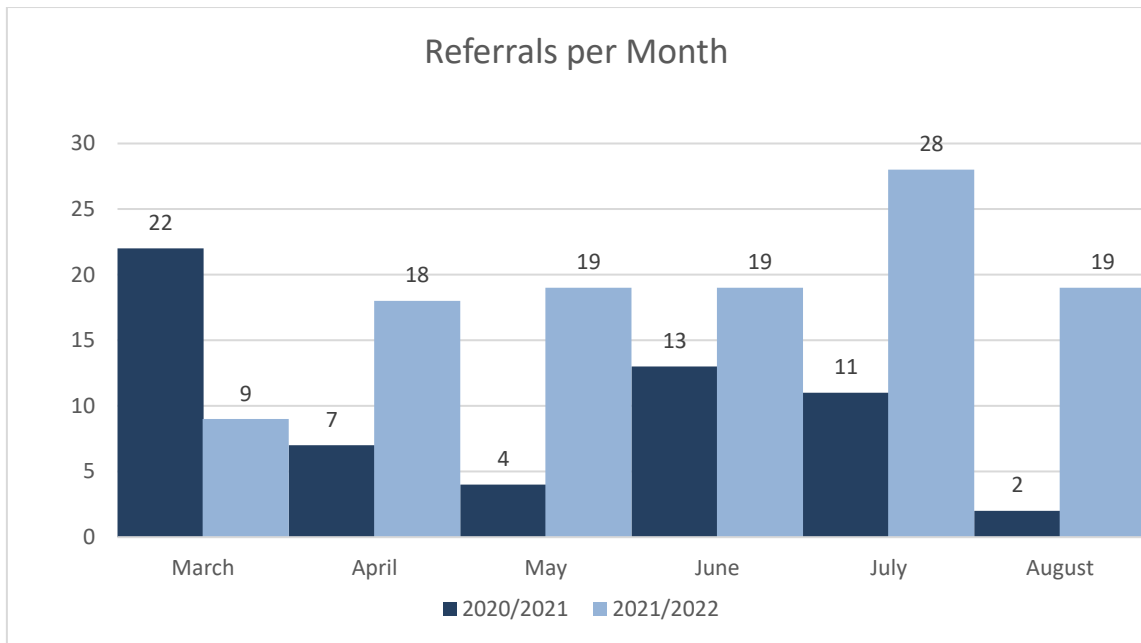
Types of Referrals

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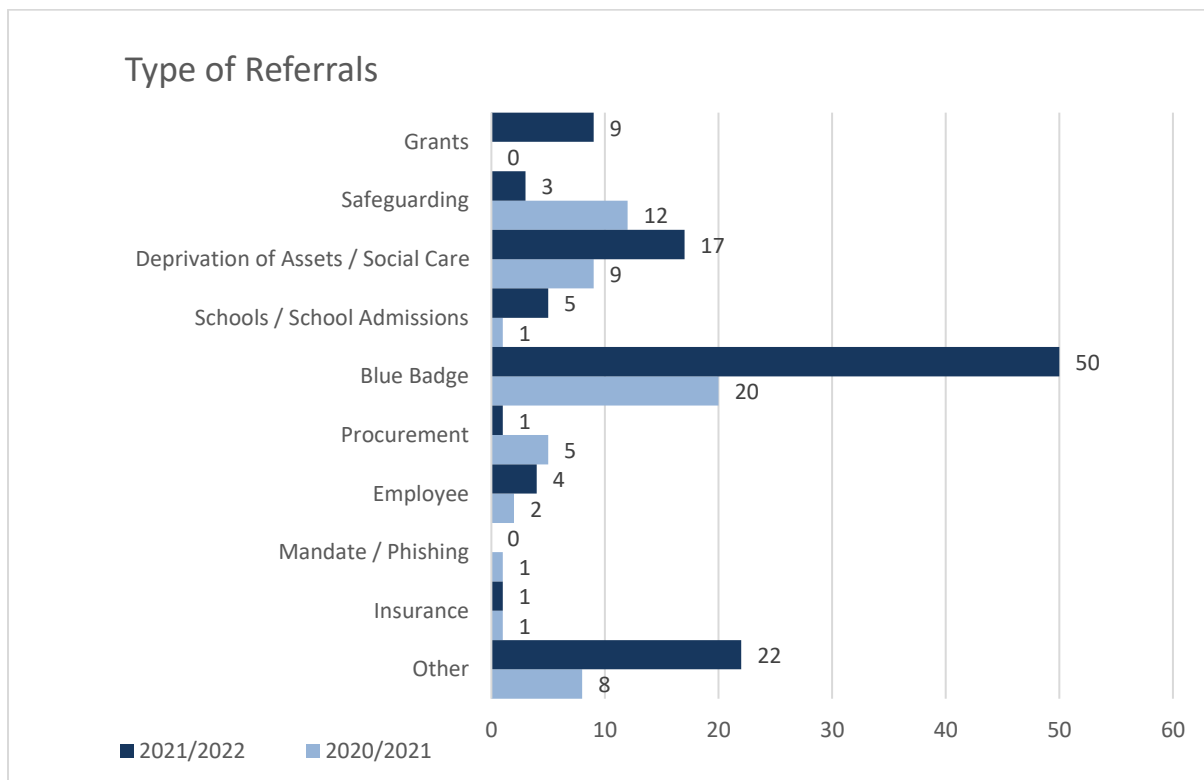
Internal Data Matching

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

- 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.

- Adult social care direct payments – a review was undertaken to identify significant increases in the care packages over the last few months/ years.

Essex Council Tax Data Matching Initiative

4.4.5   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 31 August 2021 (from July 2017) are **£2,221,173**.

National Fraud Initiative Data Matching Exercise and NFI Fraud Hub

4.4.6   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 have submitted all required datasets to the Cabinet Office during the beginning of October 2020. Several matches have been returned and are in the process of being investigated. As a result of our investigations and review, the following results have been identified:

- Concessionary Travel Passes - 11,138 records have been marked as deceased;
- Blue Badges – 3,646 records in the process of being marked as deceased;
- Pensions – 424 records identified as deceased – with Essex Pension Team for checking;
- Payroll – 71 potential duplicate matches identified. 2 issues were identified and remedial action taken as necessary, with an amount of £30,439 currently in recovery.

4.4.7   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 relating to Adult Social Care and Pensions were originally 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.

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

Data in relation to ECC Pensions continues to be submitted on a monthly basis and resultant matches sent to the ECC Pension Team for investigation / suspension. To date, savings have been recorded as £64,695 in relation to pension payments that have been recovered.

Details of the matches and outstanding results are as follows:

| Pension data | Deceased Matches | | | | | |
| | 2020/2021 | | | | 2021/2022 | |
	Q1	Q2	Q3	Q4	Q1	Q2
Number of matches submitted	1,046	189	253	492	214	158
Investigated	828	177	253	492	202	70
Outstanding	218	12	0	0	12	88
Monies returned	36,311.27	1,675.93	6,661.50	12,065.90	7,980.25	0.00

Fraud Awareness Training

4.4.8 As at 31 August 2021 the percentage of staff that have completed the recently refreshed e-learning modules relating to the fraud modules are as follows:

- 19.5% - Anti-fraud and corruption
- 18.9% - Anti-bribery and money laundering.

All staff have been requested to re-visit and complete all corporate e-learning modules by the 31st December 2021.

Note – several exemptions have been granted to ECC staff who do not have access to the intranet and e-learning modules, for example School - Crossing Patrol staff and peripatetic music tutors.

Outcomes

4.4.10 During the period 1 March 2021 to 31 August 2021, the following outcomes and sanctions have been achieved:

Outcomes	March – August 2020/2021	March – August 2021/2022
Prosecutions	0	1
Disciplinary Action	0	2
No Fraud Established	14	5
Phishing / Referred to third party	1	0
Blue Badge - Misuse Letter Sent	0	10
Blue Badge - Seized	1	6
ASC - Financial Recovery	9	10
ASC - PB terminated	6	3
Other - Financial Recovery	0	4
Other - Misuse Letters	0	1
Payment Prevented	0	1
Other	10	5

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,*

Financial Recoveries

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

Financial Outcomes	March to August 2020/2021	March to August 2021/2022
ACTUAL - Monies Recovered	211,468.70	232,282.89
ACTUAL - Monies In Recovery	71,056.04	199,950.58
NOTIONAL - Future Losses Prevented	204,049.44	83,588.36
NOTIONAL - Estimated Losses	59,810.46	44,710.52
TOTAL	**546,384.64**	**560,532.35**

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).

4.4.12 Notional savings of £3,450 have also been identified as 6 expired blue badges have been taken out of circulation, each badge being attributed a value of £575 (figure determined by the Cabinet Office).

5. Financial Implications

5.1 There are no financial implications as the Internal Audit and Counter Fraud activity 2021/22 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   Current assessment rationale for grading the priority of
                recommendations in Internal Audit reports.
Appendix 2   Overdue Major Recommendations.

9. List of Background Papers

Internal Audit reports
Internal Audit and Counter Fraud Plan for 2021-22
Internal Audit Charter