Essex County Council

Internal Audit and Counter Fraud

Annual Report

2017 / 2018

Paula Clowes - Head of Assurance (Chief Audit Executive)

June 2018

Distribution:

- Audit, Governance and Standards Committee
- Leader – Councillor Finch
- Chief Executive – Gavin Jones
- Cabinet Member for Finance, Commercial and Traded Services – Councillor McKinlay
- Cabinet Member for Customer and Corporate - Councillor Barker
- 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 2017 to 31 March 2018.

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 2017 the (former) Audit Committee approved the 2017/2018 Internal Audit and Counter Fraud Plan with 2,080 audit days (excluding external clients). Progress reports on delivery and outcomes have been provided to the Audit Committee/Audit, Governance and Standards Committee throughout 2017/2018.

During 2017/2018 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 the required assurances plus provide support and challenge to services IA&CF have adopted, where possible, a flexible approach during 2017/2018 undertaking health checks alongside the more traditional assurance audits. It has been necessary for audit timings to be adjusted during the year, and all changes to the audit plan have been agreed with the S151 officer and reported to the Audit, Governance and Standards Committee.

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.

Annual Internal Audit Opinion 2017/18

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 2017/2018, albeit with an increase in the percentage of limited assurance opinions. This is to be expected with the continuing challenge of transformation and budget pressures. 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 show the range of assurance opinions compared to 2016/17.

| Assurance Opinion (excluding schools)	2016/17 (%)	2017/18 (%)
No	1	0
Limited	18	32
Adequate	45	36
Good	36	32

A summary of our audit opinions on finalised and draft audit reports is included on page 5 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 2017/18 plan is at appendix B.

The charts below show the range of recommendation risk ratings for 2017/2018 compared to the previous year.

Audit Recommendations: 2017/18
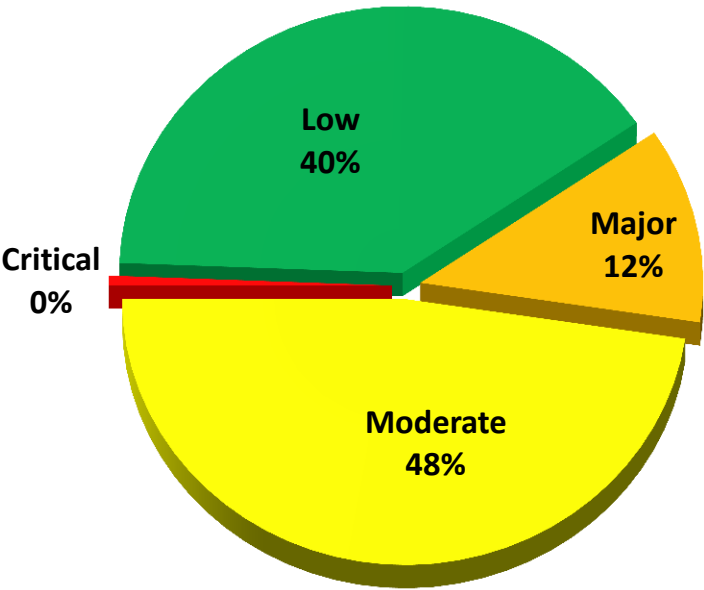
Audit Recommendations: 2016/17
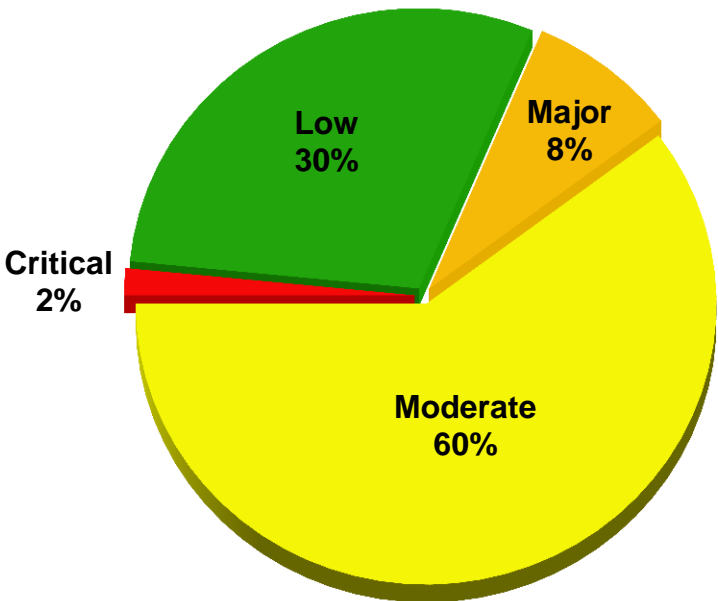
Tracking of Internal Audit recommendations takes place regularly with monthly automated emails being sent to Recommendation Owners to request status updates which they can provide via a web-based system called TeamCentral. Summary reports on outstanding recommendations are presented to Functional Leadership Team meetings on a quarterly basis, with regular progress reports on implementation of recommendations provided to Audit, Governance and Standards Committee. The Corporate Governance Steering Board also monitors implementation of recommendations as one of their indicators of effective organisational governance.

All reviews with a 'No' or 'Limited' assurance opinion are subject to a follow-up audit review.

Overview of Internal Audit Activity

Internal Audit Reports Issued Since 1 April 2018 – Assurance Opinions

*Draft report

No
- None

Limited
- Deprivation of Liberty Safeguards
- Facilities Management
- Continuing Healthcare Funding
- Social Care Case Management*
- Social Media
- IT Operations
- Personal Budgets (Families)*
- User Access Management
- Budget Monitoring*
- Off Payroll Engagement (IR35)
- Absence Management*
- User Access Management
- Declarations of Interests*

Adequate
- Building Security
- IT Security
- Early Years
- Transitions
- Oracle Integrated Assurance * *(Accounts Receivable, Accounts Payable, ePayroll, iExpenses, General Ledger, Cash Receipting, Reconciliations and Interfaces)*
- Resource Utilisation (Adult Social Care) *
- Estate Management
- Information Governance*
- Health and Safety
- Financial Assessments
- Programme and Project Delivery*
- Wix and Wrabness Primary School
- Essex Highways Payment Mechanism
- South East Local Enterprise Partnership
- Personal Budgets (Adults) – direct payments - follow up

Good
- Clavering Primary School
- Noak Bridge Primary School
- North Crescent Primary School
- Gifts and Hospitality
- Better Care Fund
- Millhouse Primary School
- Holly Trees Primary School
- Doddinghurst Infant School
- Capital Programme
- Pensions Administration
- Reablement - Contract Management
- Hillhouse Cof E Primary School
- Procurement Cards
- Oaklands Infant School
- Education Management System
- Lambourne Primary School
- Treasury Management*
- Payment Processes
- Pensions Investment
- Recruitment
- Warley Primary School
- Adult Social Care Payments
- Mildmay Infant School
- St. Nicholas' Church of England Primary School
- The Bishop William Ward School
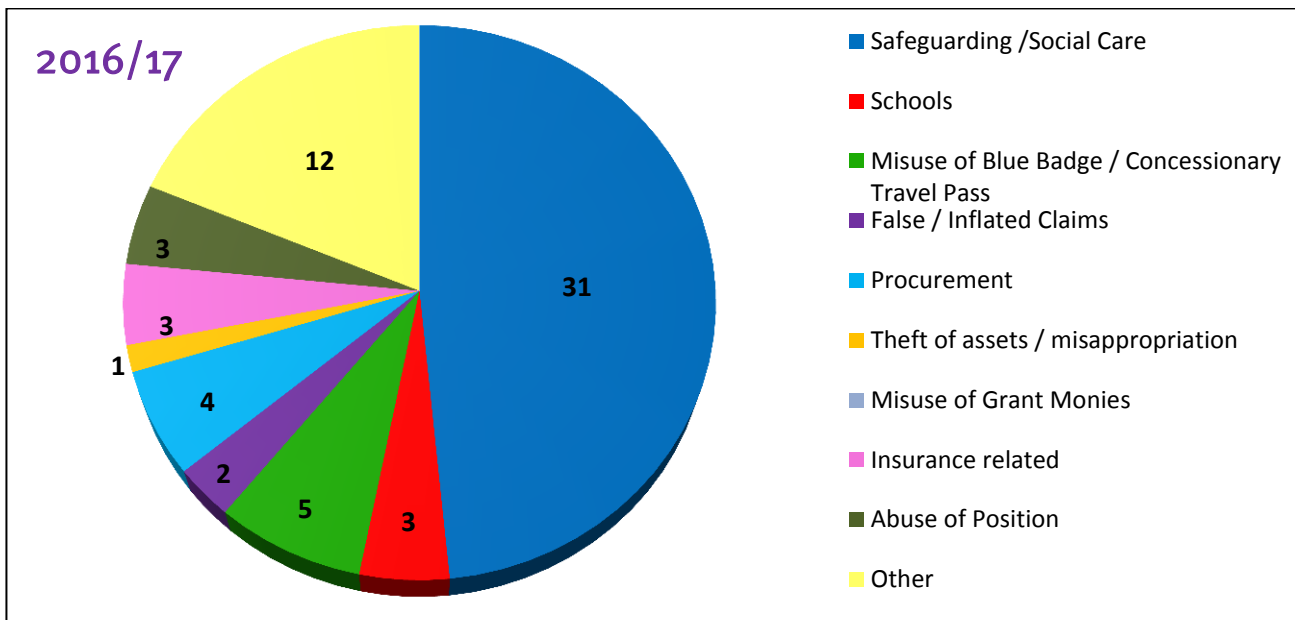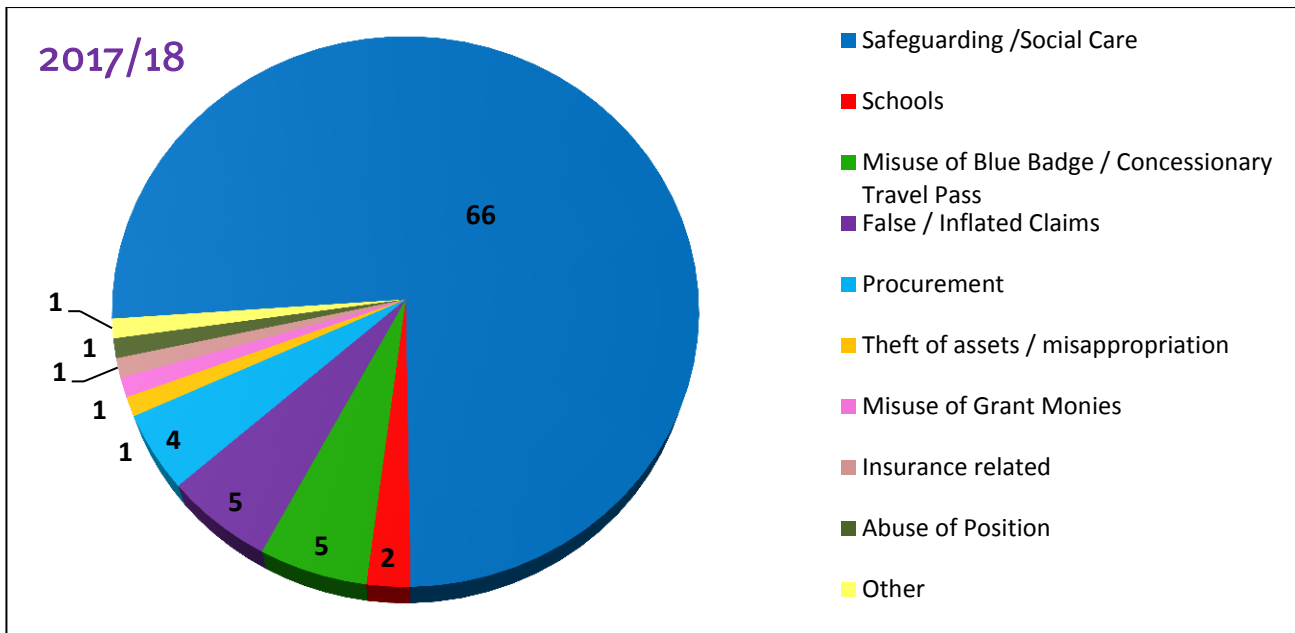- Analytical Review of School Year End Balances

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 team comprises 2.6 FTE and I can confirm that all staff are professionally qualified Counter Fraud Specialists. 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.

The charts below show the number and type of referrals received and provide a comparison with the previous year. During 2017/18 we have seen a significant increase in referrals relating to social care payments which is in the main due to increased monitoring activity within Adult Social Care. The Counter Fraud Team has worked closely with Social Care staff to support the monitoring process. We are introducing a data matching programme to look specifically at this area in 2018/19.

2017/18

66	Safeguarding /Social Care
2	Schools
5	Misuse of Blue Badge / Concessionary Travel Pass
5	False / Inflated Claims
4	Procurement
1	Theft of assets / misappropriation
1	Misuse of Grant Monies
1	Insurance related
1	Abuse of Position
1	Other

2016/17

|	
31	Safeguarding /Social Care
3	Schools
5	Misuse of Blue Badge / Concessionary Travel Pass
2	False / Inflated Claims
4	Procurement
1	Theft of assets / misappropriation
	Misuse of Grant Monies
3	Insurance related
3	Abuse of Position
12	Other

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 2017/18.

Sanction Activity	2017/18
Prosecution	1
Dismissal	1
Monies Recovered	£90k
In Recovery	£157k
Future Losses Prevented	£352k
National Fraud Initiative recoveries	£181k

Prosecution Case

After a full investigation by the ECC Counter Fraud team a Learning Support Assistant at an ECC primary school (and treasurer of the school's PTA) was found guilty at Chelmsford Crown Court in July 2017 of stealing approximately £5,000 from the school PTA funds. At the time she was arrested police seized £2,500 cash from her home. She received a 6 month sentence, suspended for 18 months, 150 hours community order plus £2,500 compensation order.

The chart below compares our counter fraud outcomes with the previous year. In line with the increased number of social care referrals we also have an increased rate of personal budget terminations and financial recoveries.
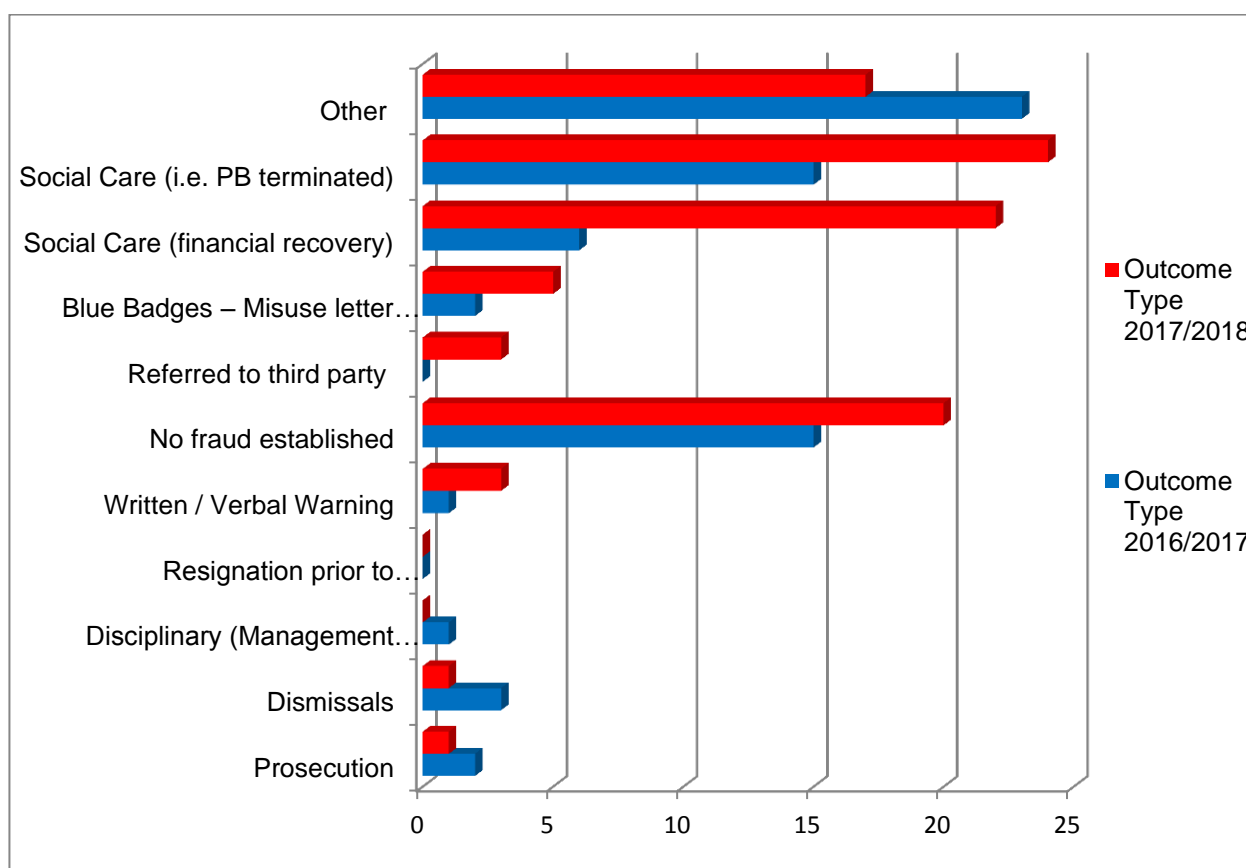
Risk Management

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 2017/18 this took the form of a Risk Management Assurance Mapping project. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Taking into account the Risk Management Assurance Map and our wider assessment of Risk Management during standard audit assignments ECC Risk Management has been assessed as **adequate** in line with the overall Internal Audit opinion.

Effectiveness of Internal Audit

"The service is highly regarded within the Council and provides useful assurance on its underlying systems and processes. I identified some minor areas of non-compliance with the standards, but nothing that would compromise the effectiveness of the service."

Elizabeth Humphrey, CIPFA Assessor

The Head of Assurance must confirm annually that the internal audit function is suitably qualified to carry out the work that informs the assurance opinion. As such and in line with our 5 year quality assurance programme, an assessment of our compliance with the Public Sector Internal Audit Standards (PSIAS) was conducted by the Chartered Institute of Public Finance Accountancy (CIPFA) during February 2018. The assessment involved interviews with key stakeholders and document review. Two audits, carried out during the 2017/18 financial year, were fully reviewed and, a further five audits were checked. Key documents, including the Internal Audit Charter and progress reports to the Audit, Governance and Standards Committee were reviewed.

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

Feedback is received through Customer Satisfaction Surveys issued at the end of each 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 2017/18, of the 16 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: 2017/18 plan reconciliation.

Appendix A

Risk rating	Assessment rationale
● Critical	Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: ▪ 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 *Remedial action must be taken immediately*
● Major	Major in that failure to address the issue or progress the work would lead to one or more of the following occurring: ▪ 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 *Remedial action must be taken urgently*
● Moderate	Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring: ▪ 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. *Prompt specific action should be taken*
● Low	Low in that failure to address the issue or progress the work would lead to one or more of the following occurring: ▪ 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.

	Remedial action is required
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 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

Audit Plan 2017/18 Reconciliation

Audit Plan Ref.	Audit Title	Status as at 22 May 2018
COR1	Gifts & Hospitality (Members and Officers)	✓
COR2	Declarations of Interest	✓
COR3	Off-Payroll Engagement (IR35)	✓
COR4	Social Media	✓
COR5	Absence Management	✓
COR6	Procurement	In progress
COR7	Contract Management	In progress
COR8	Pre-employment Recruitment Checks	Carried forward to 2018/19 Plan
COR9	Risk Management	In progress
COR10	Health & Safety	✓
COR11	Business Continuity	In progress
COR12	Development and management of traded services	Cancelled
COR13	ECC Companies	In progress
COR14	Programme and Project Delivery	✓
COR15	Facilities Management	✓
COR16	South East Local Enterprise Partnership	✓
COR17	Performance Management Information	Carried forward to 2018/19 Plan
COR18	Information Governance	✓
KF1	Oracle Integrated Assurance Review: • Accounts Receivable • Accounts Payable • ePayroll • iExpenses • General Ledger • Cash Receipting • Reconciliations and Interfaces	✓

Audit Plan Ref.	Audit Title	Status as at 22 May 2018
KF2	Payment Processes	✓
KF3	Budget Monitoring	✓
KF4	Pension Investment	✓
KF5	Pensions Services & Administration	✓
KF6	Treasury Management	✓
KF7	Procurement Cards	✓
KF8	Adult Social Care Payments System	✓
ICT1	IT Controls - Network and Infrastructure (Penetration Testing/Vulnerability Scanning)	✓
ICT2	User Access Management	✓
ICT3	Broadband Delivery UK	✓
ICT4	Asset Management	In progress
ICT5	IT Operations	✓
ICT6	IT Security	✓
ICT7	IT Strategy Review	Carried forward to 2018/19 Plan
ICT8	IT Disaster Recovery	Cancelled
ICT9	IT Project Assurance	Carried forward to 2018/19 Plan
ELP1	Economic Growth	In progress
ELP2	Programme and Project Delivery	Cancelled
ELP3	Pre-Birth to 19 Health, Wellbeing and Family Support Service	In progress
IE1	Asset Management (Revaluation of Highways Assets)	Cancelled
IE2	Waste Contract Management	Carried forward to 2018/19 Plan
IE3	Programme and Project Delivery	Cancelled
IE4	Essex Highways Payment Mechanism	✓
IE5	Essex Highways VFM	Third party assurance
IE6	Essex Highways	Third party assurance
IE7	Estate Management - (including	✓

Audit Plan Ref.	Audit Title	Status as at 22 May 2018
	Disposal of Land & Buildings)	
IE8	Building Security	✓
IE9	Capital Programme	✓
IE10	Passenger Transport	Cancelled
E1	Schools - Establishment Visits	✓
E2	Analytical Review of School Year-end Balances	✓
E3	Schools Assurance Mapping	In progress
E4	Early Years Provision	✓
E5	Education Management System	✓
ASC1	Personal Budgets (Adults) (Direct Payments)	✓
ASC2	Better Care Fund	✓
ASC3	Social Care Pre-payment Cards	Cancelled
ASC4	Adult Social Care Assessment of Needs	Cancelled
ASC5	Financial Assessments	✓
ASC6	Deprivation of liberty (DOLS)	✓
ASC7	Continuing Healthcare Funding	✓
ASC8	Resource Utilisation	✓
ASC9	Programme and Project Delivery	Cancelled
ASC10	Re-ablement Contract Management	✓
ASC11	Commissioned services for the administration of service users finances	Cancelled
ASC12	Changes to charging policy	✓
ASC13	Domiciliary Care	Carried forward to 2018/19 Plan
ASC14	Residential Care (including Supported Living)	Carried forward to 2018/19 Plan
ASC15	Local Performance Management Information	In progress
C1	Transitions	✓
C2	Personal Budgets (Families) (Direct Payments)	✓

Audit Plan Ref.	Audit Title	Status as at 22 May 2018
C3	Programme and Project Delivery	Cancelled
C4	Social Care Case Management System - Mosaic (note this is cross cutting with Adult Social Care)	✓
C5	Childrens Finances (Looked after Children)	In progress
CF1	Fraud Awareness Workshops	✓
CF2	Council Tax Initiative	✓
CF3	National Fraud Initiative (NFI)	✓
CF4	Investigations - Referrals and Case Investigation (reactive, including advice & guidance)	In progress
CF5	Blue Badge Referrals	✓
CF6	Information Breaches	✓
SOC1	Supporting Organisational Changes	✓
GRT1	Grant Claims: • Interreg SPONGE • Interreg PROFIT • Troubled Families • Carbon Reduction Credit Scheme • DfT – Bus Subsidy Ring Fenced (Revenue) Grant 16/17 • DfT – Local Transport Capital Block Funding (Integrated Transport & Highway Maintenance) Grant Determination 16/17 • DfE – NCTL Teacher Training Bursaries • DfE – School Specific Initial Teacher Training (ITT) • South East LEP – Local Growth Fund • Early Years Grant – health check	✓
EXT 1	External Contract	In progress

✓ = completed - final report and/or draft report issued