Essex County Council

Internal Audit
&
Counter Fraud

Progress Report

September – November 2021

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 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 30 November 2021.

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 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.

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. **Six** final reports have been issued since the September 2021 Audit, Governance and Standards Committee as detailed in the table below:

Assurance Rating	Audit Title	Recommendations Made			
		Critical	Major	Moderate	Low
Satisfactory	Early Years Funding	0	0	2	2
Satisfactory	Environment	0	0		
Satisfactory	VAT – input and output	0	0	1	2
Satisfactory	Essex Renewal Investment Fund	0	0	0	0
Satisfactory	Essex Construction Framework 2 Mobilisation	0	0	1	1
Satisfactory	Temporary and Interim Workers	0	0	3	

Full Internal Audit reports can be provided to Committee Members upon request.
Limited Assurance Reviews – Executive Summaries

There are no new Limited Assurance reviews this quarter.

Grant Claims

We have completed the following **grant claims**:

- BLUEPRINT – Interreg (European funded project led by Essex County Council to help local authorities move to a circular economy by the efficient use of resources when manufacturing products)

Project and Programme Support

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 launched successfully as planned in 0ctober 2021 and has now entered the "early life support" stage. Lessons learned workshops are scheduled to take place with key stakeholders in November and December 2021 and a formal Programme Closure document will be produced by the business.

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.

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.

As at 30 November 2021 there were 3 Critical, 20 Major and 101 Moderate recommendations open.

Progress on the implementation of recommendations is monitored by the Internal Audit service. So far, during 2021/22, the following recommendations have been implemented:

Risk Rating	Number Recorded as Implemented
Critical	0
Major	4
Moderate	50
Total:	**54**

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

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

The open Critical and Major recommendations as at 30 November 2021 are detailed in Appendix 2.

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.

3 of the **Major** recommendations are more than one month overdue compared to their latest agreed implementation date

There are 21 **Moderate** recommendations more than six months overdue compared to their latest target date for implementation.

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

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) subject to any Covid-19 developments.
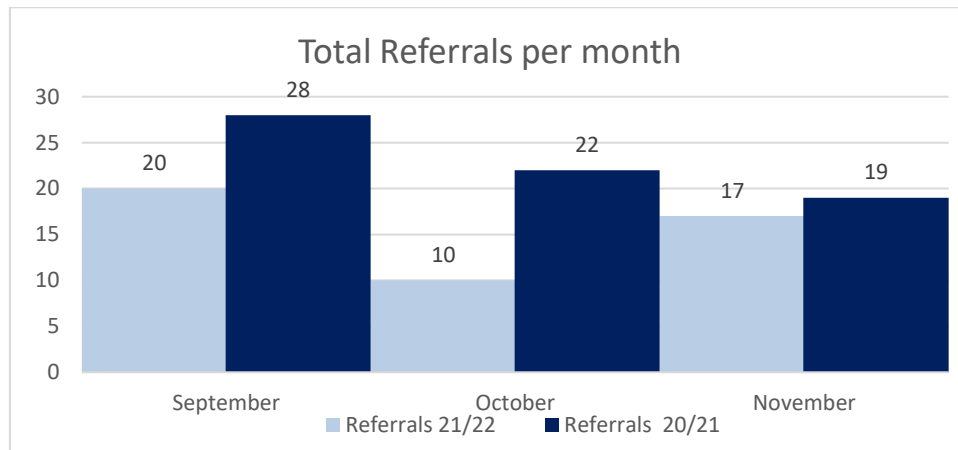
Counter Fraud Activity

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 to date for the 2021/22 year is **151**. The total referrals received during 2020/21 (1 April 2020 to 31 March 2021) amounted to

159. We have therefore seen an increase in the number of referrals throughout the course of the year, although slightly fewer referrals during the current reporting period, mainly in relation to blue badge misuse.

During the 3-month period 1 September 2021 to 30 November 2021, **47** referrals were received (including blue badge). The table below shows how this compares to the same reporting period last year (**69** referrals were received during the reporting period September to November last year).

Types of Referrals

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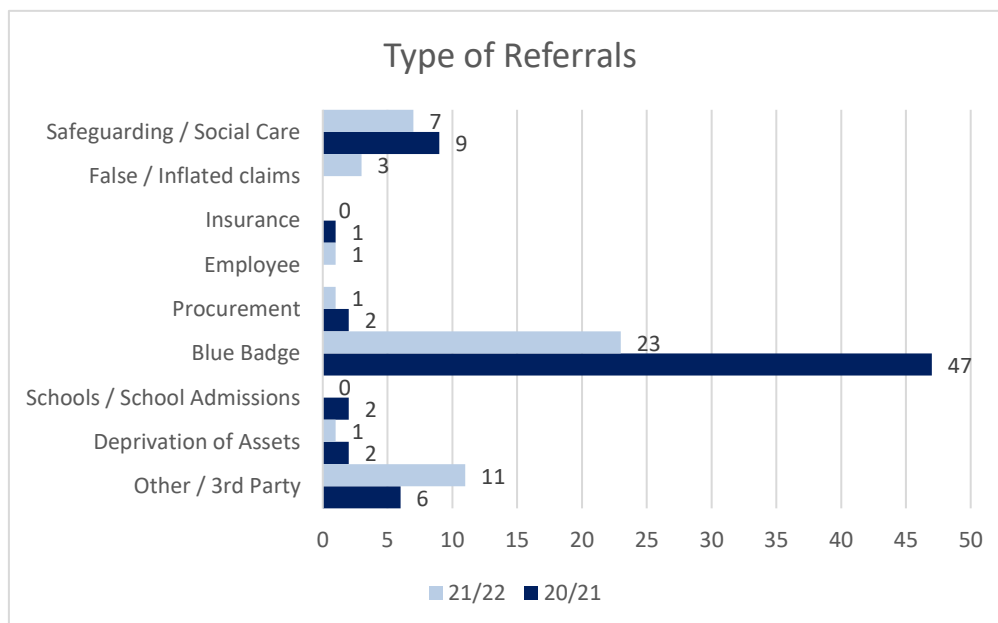
Proactive Work

Data Matching

The Counter Fraud team includes a Data and Intelligence Specialist. Data matching/ analytical work has been completed during the 3-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. Testing is currently underway.

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 have been reviewed and investigated as appropriate. The next submission will be in autumn 2022.

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.

Since September 2021, a further 290 matches have been forwarded to ECC Pensions for review.

Fraud Awareness Training

As at 2 November 2021 the percentage of staff that have completed the recently refreshed e-learning modules relating to the fraud modules are as follows:

- 27.8% - Anti-fraud and corruption

- 27.3% - Anti-bribery and money laundering.

These figures appear low because all ECC staff have been requested to re-visit and complete all corporate e-learning modules by the 31 December 2021.

Counter Fraud Outcomes

During the period 1 September 2021 to 30 November 2021, the following outcomes and sanctions have been achieved:

Outcomes	September-November 2020/2021	September – November 2021/2022
Prosecutions	0	0
Disciplinary Action	0	0
No Fraud Established	3	4
Phishing / Referred to third party	0	3
Blue Badge - Misuse Letter Sent	4	4
Blue Badge - Seized	2	6
ASC - Financial Recovery	2	2
ASC - PB terminated/reduced	2	1
Other - Financial Recovery	2	0
Other - Misuse Letters	0	0
Payment Prevented	0	0
Other*	0	3

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

The Counter Fraud Team are currently working with the Essex Legal Team in relation to two cases whereby suspected fraudulent grant claims have been submitted to Essex County Council for Covid related funding.

In both cases, care providers have submitted grant claims, supported by alleged fabricated invoices. In one case, the value amounts to approximately £60,000 and the other in excess of £200,000. In both cases, payment has been made by Essex County Council. The Counter Fraud Team are preparing cases for potential prosecution.

Financial Recoveries

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

	September to November	September to November
	2020/2021	**2021/2022**
ACTUAL - Monies Recovered	53,675.48	48,257.54
ACTUAL - Monies In Recovery	38,064.27	0.00
NOTIONAL - Future Losses Prevented	61,805.73	9,855.00
NOTIONAL - Estimated Losses	4,231.68	0.00
TOTAL	**157,777.16**	**58,112.54**

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).

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).

List of Appendices

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

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

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***

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 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 Critical and Major Internal Audit Recommendations as at 29 November 2021

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
IT Disaster Recovery (1617 ICT11)	**Supplier Contracts and Responsibilities**	31/01/18	31/12/21	**9 November 2021:** Awaiting outcome of Disaster Recovery (DR) Follow-up Audit to be published and this recommendation to be superseded. Technology Services are continuing with the work to implement DR services as part of the Cloud Migration programme. **Audit Comment:** Once the current IT DR audit is finalised it is expected that these Critical recommendations will be changed to Major to reflect the reduced risk to the organisation.	Head of Technology and Architecture, Corporate Services	Critical
	Scope The Council should formally define recovery requirements for all critical services and understand the technical end to end requirements, highlight any gaps in technical provision and articulate the resources and budget required to close them.	31/12/17	31/12/21			Critical
	Capability	31/01/18	31/12/21			Critical
Business Continuity (1516 COR12)	**Third Party Dependencies** Validation of key third party suppliers' business continuity arrangements	31/12/16	31/01/22	**26 November 2021:** We have refreshed our training material on business continuity and contingency for the Procurement Team and will be rolling that out to the team in the early New Year. Historically we have engaged with the BC team around the provisions they felt were required for BC within our procurement processes and there was a	Strategy and Assurance Lead, Procurement	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
				detailed discussion around the tendering stage which resulted in an agreement that BC plans would not form part of the evaluation at tendering stage. However, given how much time has lapsed we are going to resurface this discussion with them – ideally next week to see if this position still stands. We also have timetabled a review of our contract compliance audit process – which picks up on BC plans in January 2022. This has been stood down due to the pandemic but we are now in a position to bring this work back on line.		
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	**22 April 2021:** Adults have a Direct Payments monitoring team which is currently being reviewed- the plan is that they will commence monitoring childrens should the review be favourable. **Audit Comment**: Automated reminders are sent monthly for Recommendation Owners to provide status updates. In addition, Internal Audit have contacted the service separately in November 2021 to request the current position.	Director Local Delivery, Children and Families	Major
Absence Management (1718 COR5)	**Notifications to Line Managers/ Management Information on Compliance**	30/09/18	31/10/21	**18 August 2021:** Work on the Corporate Systems Programme continues, with delivery due in October 2021 and this need fed into requirements. In the meantime reporting of individuals reaching absence triggers is due to be included within monthly People Performance packs starting within Q2 2021/22. **Audit Comment:** An Internal Audit review of Absence Management is planned for 2022/23	Head of People Insight and Technology	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
	Completeness of Return to Work Action	30/09/18	31/10/21	**10 August 2021:** The requirements for this have been built into the My Oracle design and are currently undergoing testing. These new features will form part of the My Oracle launch in October 2021. **Audit Comment:** An Internal Audit review of Absence Management is planned for 2022/23		Major
Major Incident Management (1920 CD3)	**Improving the governance over major incidents through reporting**	30/09/20	30/09/21	**2 August 2021:** Major Incidents are now reported through the Monthly TSLT Pack and the monthly FLT Pack, problem records logged and where possible Root Cause Analysis identified, more work is required, when resource allows, to ensure that the lessons are learnt from each MI to avoid re-occurrences.	Chief Operations Officer, Technology Services	Major
	Defining the critical council services and working with the Corporate Business Continuity team	31/07/20	31/12/21	**19 October 2021:** Business Continuity has a preliminary spreadsheet detailing the services that the business run, the technology that they are linked to, and desired recovery times. The spreadsheet is undergoing verification and may be updated in a few months. If in the future different target fix times were requested, this would constitute a change to the SLA and would need approval from higher within TS to proceed.		Major
Building Security (1920 PPH5)	**Partner Organisation Leaver Process**	31/08/19	14/05/21	**12 May 2021:** Some progress has been made in identifying sponsors for each partner organisation. Next steps are to: understand from Mitie the progress in terms of the proposal around how security cards could be set up for a limited amount of time; how the system could be enabled to send email reminders; and	Facilities Manager	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
				understand the potential for removing the paper security card forms.		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		**4 May 2021:** 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. ECC currently reviewing update from Mitie with further meetings planned to discuss/progress April/May 2021. **Audit Comment:** A follow up Internal Audit review of this area is planned in 2021/22 and a final terms of reference agreed.	Head of Commercial Development	Major
Libraries – Stock Control and Fees and Charges (2021 CC2)	**Stocktake Protocol** Write, formally approve, circulate and embed into business as usual a protocol for undertaking stocktakes.	31/03/21		**18 August 2021:** The stocktake protocol document has been prepared. It has been agreed that a full stock take will take place annually in December. **Audit Comment:** A follow up review is currently being undertaken and it is expected that this recommendation will be reduced to Moderate once the audit is finalised.	Citizen Service Manager	Major
Income System (2021 FT25)	**No evidence of back up arrangements and disaster recovery**	30/11/21		**Audit Comment:** Final report issued in September 2021.	Supplier and Service Assurance Manager	Major
Accounts Receivable (2021 FT11AR)	**Automated system functionality to enforce compliance with the Collection Strategy and prioritisation of activity**	31/03/22			Service Manager, Finance	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
	Reliance on non-established posts	31/12/21				Major
IT Asset Management (2021 FT17)	Hardware Asset Audits	1/09/21	31/03/22	Audit Comment: Final report recently issued in September 2021. A follow up review will be undertaken in 2022.	Service Operations Manager	Major
	IT Infrastructure Planning	1/01/22	31/12/21			Major
	Leavers Not on The Corporate System (TCS) and Inactive Assets	1/09/22	31/12/21			Major
	IT Equipment Orders	1/07/21	31/12/21			Major
Country Parks (2021 PPH9)	Stocktake and Reconciliations	31/12/21		28 September 2021: Currently in recruitment phase for a new Food & Beverage Manager position to oversee all ECC run cafe outlets in Country Parks. Consideration will be given to a dedicated electronic point of sale system, as the data captured on very old till systems in cafe outlets is unsuitable for robust sales data and accurate reconciliation.	Commercial Operations Manager	Major
	Absence of a stock write off and stock discounting procedures	31/12/21 (not yet due)		28 September 2021: Currently in recruitment phase for new Food & Beverage Manager position. F&B Manager will be tasked with reviewing wastage procedures, including discounting and write offs. Current position is no discounting approved, which increases wastage and harms profitability of offers, but removes subjectivity and associated risks in absence of dedicated management oversight.		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		**4 November 2021:** Cllr Graham Butland has been engaged and briefed on the financial position of the service and long term maintenance requirements. A paper is being taken to PLT on the 4th November 2021 by Cllr Butland to discuss future options.	Wellbeing, Place and Communities Lead	Major
	Site Risk Assessments	31/10/21		**17 November 2021:** Facilities Management/ Mitie have been commissioned to assist in undertaking Statutory Inspections. Electrical testing has been undertaking and any remedial works being undertaken. Legionella testing has also been undertaken. Further inspections e.g. playgrounds and trees are being organised. The Service is working with Corporate Health and Safety who have visited several of the sites to assist in developing health and safety management plans.		Major