



Internal Audit & Counter Fraud

Progress Report

December 2021 – February 2022

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 28 February 2022.

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. **Eleven** final reports have been issued since the December 2021 Audit, Governance and Standards Committee as detailed in the Table below:

Assurance Rating	Audit Title	Recommendations Made			
		Critical	Major	Moderate	Low
Good	Better Care Fund	0	0	0	2
Good	Cyber Security	0	0	2	0
Good	ACCESS Support Unit	0	0	1	0
Good	South East Local Enterprise Partnership (SELEP)	0	0	0	0
Satisfactory	IT Incident Management	0	0	1	6
Satisfactory	Use of Consultancy	0	0	3	0
Satisfactory	Integrated Waste Handling	0	0	0	0
Satisfactory	Business Continuity	0	0	1	3
Satisfactory	Wellbeing	0	0	0	0
Reasonable Progress	Libraries Stock Control and Fees and Charges – Follow Up	0	0	5	1
Limited	IT Disaster Recovery – Follow Up	0	3	3	0

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

Limited Assurance Reviews – Executive Summary

IT Disaster Recovery – Follow Up

The Council has made **significant progress** since its previous IT Disaster Recovery audit in 2016/17 which received an overall opinion of **No Assurance** with five Critical recommendations. All five Critical recommendations have now been closed.

The recent follow up identified three Major and three Moderate recommendations. These relate to:

- Incomplete business impact analysis and validation (*Major*)
- Operating effectiveness of the disaster recovery arrangements (*Major*) – *this action has been recorded as implemented.*
- IT disaster recovery testing (*Major*)
- Roles and responsibilities for invoking the IT Disaster Recovery Plan (*Moderate*)
- the IT Disaster Recovery Plan remains in draft (*Moderate*)

- the Cloud Strategy is yet to be approved (*Moderate*) – *this action has been recorded as implemented*

At the time of finalising the report it had been agreed that all recommendations will be implemented by September 2022. The service would normally be asked to attend this meeting to explain the actions they are taking to respond to the report but on this occasion the Director, Technology Services has requested more time.

Grant Claims

We have completed a review of 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)

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 8 March 2022 there were 19 Major and 91 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 as at 30 November 2021	Number Recorded as Implemented as at 8 March 2022
Critical	0	3
Major	4	10
Moderate	50	77
Total:	54	90

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 Major recommendations as at 8 March 2022 are detailed in Appendix 2. There are no open Critical recommendations.

Eleven of the open **Major** recommendations are more than one month overdue compared to their latest agreed implementation date. This number has increased by four compared to that reported in our December 2021 Progress Report.

There are **seventeen Moderate** recommendations more than six months overdue compared to their latest target date for implementation. This number has reduced by four compared to that reported in December 2021.

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

There are minimal changes to report in relation to delivery of the Internal Audit and Counter Fraud Plan in 2021/2:

- School establishment visits have been delayed due to Covid but are now booked in to commence in April 2022.
- The Treasury Management review was described as “flexible” in the Plan as we were waiting for the new Treasury Management Code and the Prudential Code to be issued by CIPFA. This has now recently been published and so an audit of Treasury Management will take place in early 2022/23 and has been included in the Internal Audit and Counter Fraud Plan for 2022/23.

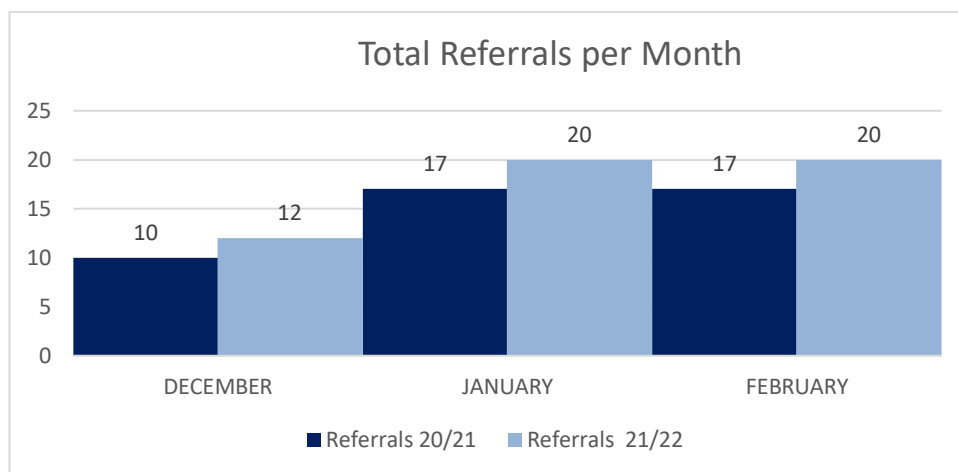
Counter Fraud Activity

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

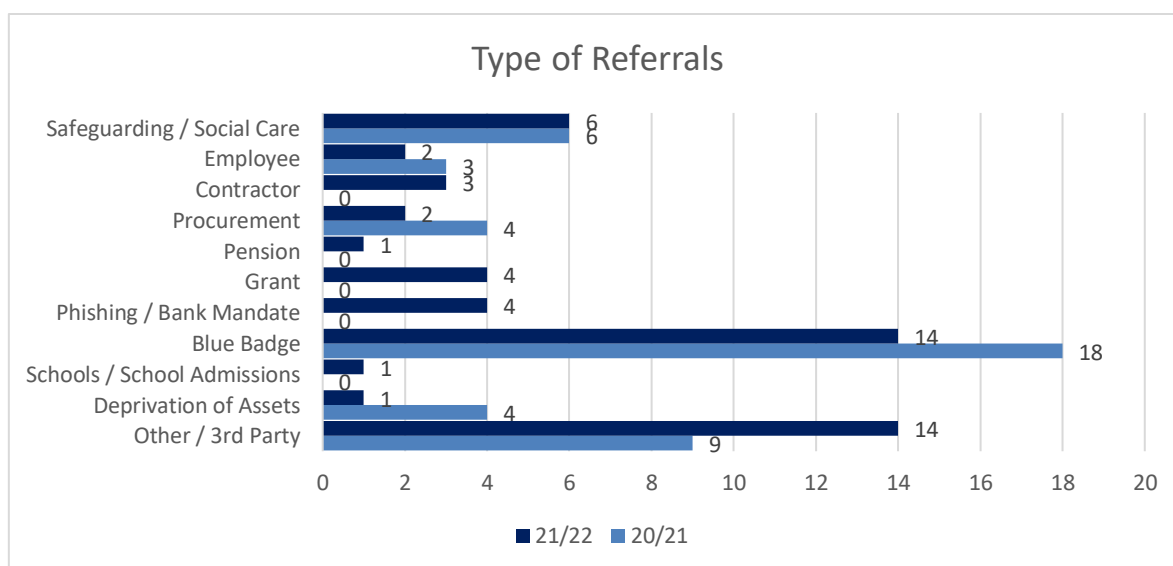
The total number of fraud referrals received to date for the 2021/22 year is **201**. The total referrals received during 2020/21 (1 April 2020 to 31 March 2021) amounted to **159**. We have therefore seen an increase in the number of referrals throughout the course of the year.

During the 3-month period 1 December 2021 to 28 February 2022, **52** referrals were received (including blue badge). The table below shows how this compares to the same reporting period last year (**44** referrals were received during the reporting period December to February 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:

- Covid funding forwarded to Adult Social Care Providers. An analysis is being completed of the total covid related funding that has been forwarded to providers, per individual provider. A sample of providers will be selected for review and evidence requested to confirm that funding has been spent in accordance with the relevant grant agreements.

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 **£66,250** in relation to pension payments that have been recovered.

Since December 2021, a further 64 matches have been forwarded to ECC Pensions for review.

Fraud Awareness Training

As at 28 February 2022 the percentage of staff that have completed the recently refreshed e-learning modules relating to the fraud modules are as follows:

- 59.7% - Anti-fraud and corruption
- 59.6% - Anti-bribery and money laundering.

Staff who have not yet completed the modules have been reminded to do so. A system change within HR has meant that reminders have only been issued within the last month.

Additional bespoke training sessions have been completed as follows:

- Fraud Awareness training session for Members
- Understanding Fraud in Adult Social Care (two sessions for the Essex Social Care Academy)

- Bank Mandate and phishing fraud awareness for ECC Procurement Officers

Counter Fraud Outcomes

During the period 1 December 2021 to 28 February 2022, the following outcomes and sanctions have been achieved:

Outcomes	1 December 20 - 28 February 21	1 December 21 - 28 February 22
Prosecutions	0	0
Disciplinary Action	0	0
No Fraud Established	4	7
Phishing / Referred to third party	4	6
Blue Badge - Misuse Letter Sent	4	1
Blue Badge - Seized	2	3
ASC - Financial Recovery	2	1
ASC - PB terminated/reduced	2	3
Other - Financial Recovery	0	0
Other - Misuse Letters	0	0
Payment Prevented	0	1
Other	0	6

**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

During the last quarter, the Counter Fraud team have received further referrals relating to potential inflated grant claims of covid funding. In addition, there has been reported misuse of funding claimed via the Locality Fund and Essential Living Fund that are in the process of being investigated.

Financial Recoveries

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

1 December 2021 - 28 February 2022	
ACTUAL - Monies Recovered	0.00
ACTUAL - Monies in Recovery	54,334.75
NOTIONAL - Future Losses Prevented	80,356.02
NOTIONAL - Estimated Losses**	1,853,709.70
TOTAL	1,988,400.47

** Note – Estimated losses include a notional reserve pending an insurance claim against the Council for personal injury. This claim was successfully defended, after surveillance and additional evidence obtained rendered the claim to be over-inflated.





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 £1,725 have also been identified as 3 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 Major Recommendations.

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

Risk rating	Assessment rationale
 Critical	<p>Critical and urgent in that failure to address the risk could lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> 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 <p>Remedial action must be taken immediately</p>
 Major	<p>Major in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> 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 <p>Remedial action must be taken urgently</p>
 Moderate	<p>Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> 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. <p>Prompt specific action should be taken</p>
 Low	<p>Low in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> 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. <p>Remedial action is required</p>
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 be 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 Major Internal Audit Recommendations as at 8 March 2022

Red text means that the deadline has been exceeded without a revised deadline being requested and agreed.

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
Business Continuity (1516 COR12)	Third Party Dependencies Validation of key third party suppliers' business continuity arrangements	31/12/16	31/03/22	14 February 2022: Revised date of 31 March 2022 requested to enable Procurement to review and feedback to BC Team & plan for any agreed updates to sourcing processes	Strategy and Assurance Lead, Procurement	Major
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. An audit has been included in the draft Internal Audit and Counter Fraud Plan for 2022/23.	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
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 understand the potential for removing the paper security card forms.	Facilities Manager	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		8 March 2022: 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. A follow up audit has been completed and a draft report is due to be issued shortly. This recommendation has not been fully implemented and so remains open. A revised target date will be sought when the new report is finalised.	Head of Commercial Development	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. No update provided since. A follow up audit of this area is planned for 2022/23.	Supplier and Service Assurance Manager	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
IT Disaster Recovery (2021 F19)	Incomplete business impact analyses	21/12/21	30/09/22	12 January 2022: An initial set of BIA data has been provide to Tech Services for consideration, some further information is required on some critical services less than 5%. Tech Services and Business Continuity are meeting to start to consider whether IT Recovery Time Objectives (RTO's) support the business's RTO's. Audit Comment: Final Internal Audit report issued late December 2021.	Jointly owned by Chief Operating Officer and Emergency Planning and Resilience Manager	Major
	IT Disaster Recovery Testing	30/09/22 (not yet due)			Chief Operating Officer	Major
Accounts Receivable (2021 FT11AR)	Automated system functionality to enforce compliance with the Collection Strategy and prioritisation of activity	31/03/22 (not yet due)			Service Manager, Finance	Major
	Reliance on non-established posts	31/12/21		No update provided.		Major
IT Asset Management (2021 FT17)	Hardware Asset Audits	1/09/21	31/03/22 (not yet due)	17 December 2021: Following data reconciliation activities, Device Management and Asset Admin are reviewing all inactive an unknown assets as a clean up activity. Lessons learned from this activity will inform the continual audit and remediation process. Audit Comment: A follow up review will be undertaken in 2022.	Chief Operations Officer	Major
	IT Infrastructure Planning	1/01/22	28/02/22	10 February 2022: Awaiting Tech Services Leadership Team confirmation to commence these meetings. 17 December 2021: Draft terms of reference complete and circulating throughout stakeholder	Chief Operations Officer	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
				base for a quarterly forecasting board meeting. Taking in data around technical refresh requirements, organisational growth and upcoming strategic onboarding activities to inform purchasing strategy.		
	Leavers Not on The Corporate System (TCS) and Inactive Assets	1/09/22	31/12/21	23 February 2022: A Document has been produced which explains the steps taken, on how we are notified of Non My Oracle Leavers, and how we then proceed to ensure a Leavers request is raised, to end network access/return of any ECC assets.	Chief Operations Officer	Major
	IT Equipment Orders	1/07/21	11/03/22	21 February 2022: Devices counted when delivery is made to make sure we get the correct number. Updated implemented date to complete testing on Device Management Power App and process for CMDB import.	Chief Operations Officer	Major
Country Parks (2021 PPH9)	Stocktake and Reconciliations	31/12/21		8 December 2021: Currently experiencing recruitment difficulties / delays for the Food & Beverage Manager position, which is delaying full implementation of recommendations due to the requirement for this post to specify and procure / source external stock taking services, ePOS system, and reviewing and implementing updated procedures and operating controls.	Commercial Operations Manager	Major
	Absence of a stock write off and stock discounting procedures					Major
Essex Traveller Unit (2021 PPH6)	Site Management Plan	31/03/22 (not yet due)		4 November 2021: Cllr Graham Butland has been engaged and briefed on the financial position of the service and long term maintenance requirements.	Wellbeing, Place and Communities Lead	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
	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 undertaken 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