



**Internal Audit
&
Counter Fraud
Progress Report
April 2022 – August 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 2022/23 Internal Audit and Counter Fraud Plan (approved by the Audit, Governance and Standards Committee in March 2022). It reflects the situation as of 31 August 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 2022/23, 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 2022/23 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. **Twenty-five** final reports have been issued since the March 2022 Audit, Governance and Standards Committee as detailed in the Table below:

Assurance Rating	Audit Title	Recommendations Made			
		Critical	Major	Moderate	Low
Good	Essex Pension Fund – Administration	0	0	0	0
Good	Essex Pension Fund – Funding and Investment	0	0	0	0
Good	Accounts Payable	0	0	0	1
Satisfactory	Essex Housing	0	0	2	1
Satisfactory	Capital Programme	0	0	4	0
Satisfactory	Sourcing	0	0	3	0
Satisfactory	Contract Management	0	0	3	0
Satisfactory	Journals and Virements	0	0	1	1
Satisfactory	Payroll	0	0	1	0
Satisfactory	Banking and Cash	0	0	3	2
Satisfactory	Budgetary Control	0	0	3	0
Satisfactory	Expenses	0	0	1	1
Satisfactory	Accounts Receivable (AR)	0	1	5	1
Satisfactory	Essex Social Care Academy (ESCA)	0	0	2	4
Satisfactory	Housing Infrastructure Fund (HIF)	0	1	4	1
Satisfactory	Information Governance	0	0	3	1
Satisfactory	3x School Establishment Reviews	N/A	N/A	N/A	N/A
Satisfactory	School Information Regulation Compliance	N/A	N/A	N/A	N/A
Reasonable Progress	Energy Invoice Processes – Follow Up	N/A	N/A	N/A	N/A
Reasonable Progress	ASC Debt – Follow Up	N/A	N/A	N/A	N/A
N/A	Risk Management	No assurance opinions – advisory / consultative approach.			
N/A	Care Technology – Early Assurance				
N/A	Health and Safety – Lone Working				

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

Limited Assurance Reviews – Executive Summary

No Limited Opinion reports have been issued in the period.

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)
- South East Local Enterprise Partnership (SELEP) Growth Hub Core Funding
- EMPOWER – Empowering the citizens – Towards European Energy Market 2.0 (Enabling More People's Ownership in Energy transition)
- LECSEA - Local Energy Communities for the 2 Seas region
- LOCAL AUTHORITY TEST AND TRACE SERVICE SUPPORT GRANT DETERMINATION 2020/21: No 31/5075
- Covid Outbreak Management Fund (COMF), Grants as per the determination number detailed in the table below:

Grant Determination Reference	Value
31/5219	£4,467,567
31/5244	£7,445,945
31/5304	£4,158,602
31/5341	£5,956,756
31/5411	£4,254,826
31/5411	£1,701,930
31/5456	£7,658,686
31/5518	£7,434,299
TOTAL	£43,078,611

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

Between 1 April and 31 August 2022, the following number of recommendations have been marked as closed (based on justification received from recommendation owners):

Risk Rating	Number Recorded as Closed between 1 April and 31 August 2022
Critical	1
Major	7
Moderate	57
Total:	65

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

As at 31 August 2022 there were **17** Major and **94** Moderate recommendations open. There are no open Critical recommendations.

11 of the open **Major** recommendations are more than one month overdue compared to their latest agreed implementation date. This number is consistent with the number reported in our March 2022 Progress Report.

There are **27 Moderate** recommendations more than six months overdue compared to their latest target date for implementation. This number has increased by ten compared to that reported in March 2022.

We will be running a small project over the next 6 months to review the moderate and major recommendations to ensure that they are still relevant, owned by the correct person or have been implemented but not reported as such.

The open Major recommendations as at 31 August 2022 are detailed in Appendix 2.

Changes to the 2022/2023 Internal Audit and Counter Fraud Plan

There no changes to report in relation to delivery of the Internal Audit and Counter Fraud Plan in 2022/23. We will be using approximately 10 days from our 'Emerging Risks' budget to carry out the review of the outstanding recommendations.

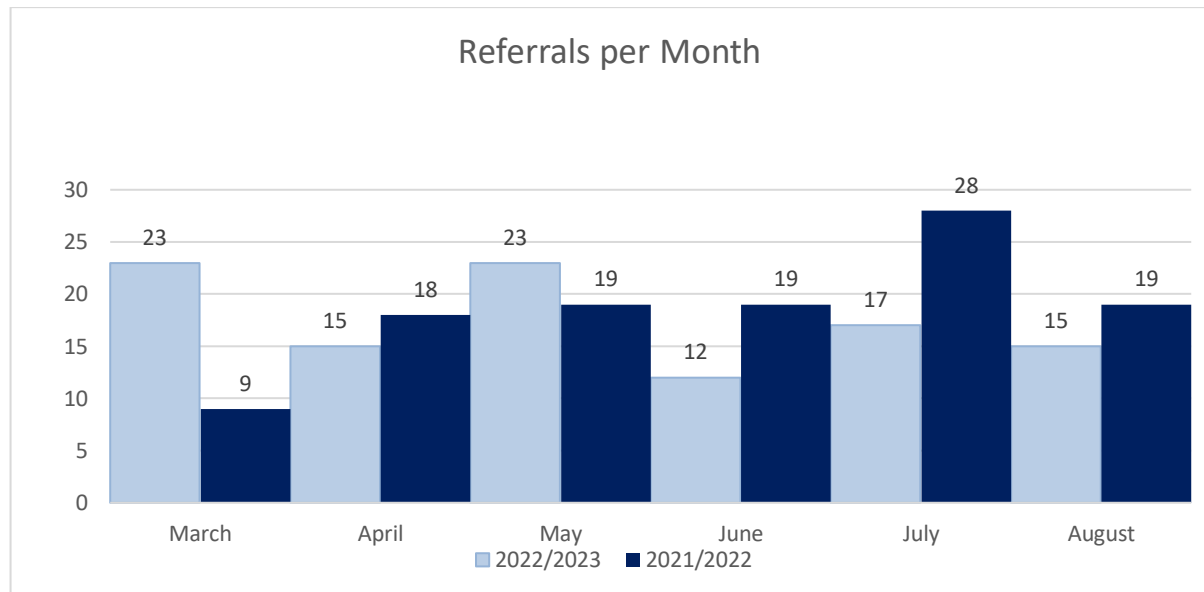
Counter Fraud Activity

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

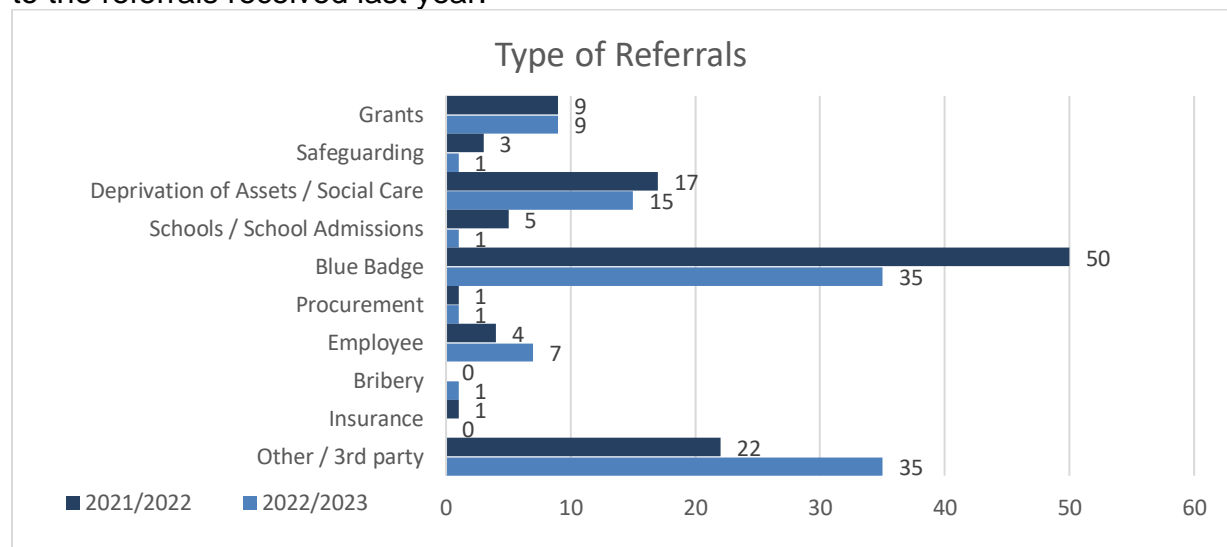
The total number of fraud referrals received to date for the 2022/23 year is **105**. The total referrals received during the same reporting period for 2021/22 (1 March 2021 to 31 August 2022) amounted to **112**. The number of referrals received is consistent

with the numbers received last year, although it is noted that we have seen a decrease in the number of Blue Badge related referrals.



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 has been selected for review and evidence requested to confirm that funding has been spent in accordance with the relevant grant agreements.
- A big focus of work this quarter has been preparing data sets for inclusion in the 2022 NFI exercise (see below).

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 mandatory submission will be in October / November 2022 and will include datasets covering payroll, pensions, social care, payables and blue badges.

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 us not having to pursue monies paid in error.

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. Since March 2022, 423 matches have been forwarded to ECC Pensions for their review. All matches have been reviewed and closed down.

To date, savings have been recorded as **£97,271** in relation to pension payments that have been recovered.

Fraud Awareness Training

As at 31 August 2022 the percentage of staff that have completed the recently refreshed e-learning modules relating to the fraud modules are as follows:

- 72.3% - Anti-fraud and corruption
- 72.3% - 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:

- Understanding Fraud in Adult Social Care (two sessions for the Essex Social Care Academy)

Counter Fraud Outcomes

During the period 1 April 2022 to 31 August 2022, the following outcomes and sanctions have been achieved:

Outcomes	1 April 21 – 31 August 21	1 April 22 – 31 August 22
Prosecutions	1	0
Disciplinary Action	2	1
No Fraud Established	5	13
Referred to third party	0	6
Blue Badge - Misuse Letter Sent	10	3
Blue Badge - Seized	6	7
ASC - Financial Recovery	10	11
ASC - PB terminated/reduced	3	5
Other - Financial Recovery	4	3
Other - Misuse Letters	1	0
Payment Prevented	1	1
Other	5	14

**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 five-month period, the Counter Fraud team have received referrals relating to potential issues regarding compliance with ECC's recruitment process, attempted bribery of an ECC representative and potential deprivation of asset cases. All cases 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 April 2022 – 31 August 2022	
ACTUAL - Monies Recovered	180,979.87
ACTUAL - Monies in Recovery	135,291.23
NOTIONAL - Future Losses Prevented	162,833.59
NOTIONAL - Estimated Losses**	40,388.82
TOTAL	519,493.51





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 £4,025 have also been identified as 7 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 31 August 2022

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 (BC) arrangements.	31/12/16	31/03/22	29 April 2022: Met with BC Team on 28 April. Procurement now needs to review proposed changes and feedback to BC on the different approach that has been put forward.	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	Director Attended AGS Committee in March to provide full update. Audit Comment: <u>Audit review of Personal Budgets is due Q3/4 2022/23 when we will undertake a full review of progress against this action</u>	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: <u>An Audit review of Absence Management is planned for Q4 2022/23 when we will undertake a full review of progress against this action</u>	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	18 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: <u>An Audit review of Absence Management is planned for Q4 2022/23 when we will undertake a full review of progress against this action</u>		Major
Building Security (1920 PPH5)	Partner Organisation Leaver Process	31/08/19	14/05/21	31 August 2022: New Manager / Recommendation owner took over recently. Advised there are longstanding issues with regards to obtaining third party leaver information. A solution has now been identified and new manager is progressing implementation. Audit Comment: Previous Facilities Manager left, and the new post holder has only recently been appointed and allocated this action.	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	30/04/22	21 March 2022: A follow up of this audit occurred in the 2021/22 financial year, the final report was issued 21/03/22. 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. As this recommendation has not been fully implemented, it remains open. A revised target date for end April 2022 was sought when the follow-up report was finalised.	Procurement Specialist	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
IT Disaster Recovery (2021 F19)	IT Disaster Recovery Testing	30/09/22 (not yet due)	04/11/22 (not yet due)	03 August 2022: Technology Services have successfully recruited a Disaster Recovery and Business Continuity (DR&BC) Manager, who started in post as of the start of July 2022. The primary objectives of the new manager will be to develop the TS DR/BC strategy and to implement a plan and schedule for the testing of all ECC applications, focusing on the Priority 1 applications in the first instance. The DR/BC strategy and testing schedule will be in place by October 2022, with testing commencing as per the schedule from that point onwards.	Head of Technology Operations	Major
	Incomplete Business Impact Analyses (BIA))	21/12/21	30/09/22 (not yet due)	03 August 2022: The newly appointed DR/BC Manager is in the process of developing the DR/BC strategy, and as part of this will be ensuring that there is clarity around all of the applications. As part of this process they will be assessing the BIAs against existing DR arrangements. As part of this in-depth investigation, the DR/BC Manager work with respective functions from across ECC to ensure that a course of action is in place to either treat or tolerate the risk. The DR/BC Manager will also be investigating the terms of the contracts for our major supplier provided services, to ensure that ECC is receiving the DR/BC services that are stated within the terms of the contracts.	Head of Technology Operations	Major
IT Asset Management (2021 FT17)	Hardware Asset Audits	01/09/21	30/06/22	22 August 2022: A follow up review has recently been undertaken (remains in draft). While it was evident that elements of the Service Asset and Configuration Management (SACM) policy are complied with, the entire policy is not currently being adhered to. The	Head of Technology Operations	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
				recommendation remains open but a reduced risk exposure has been noted. Expect full implementation by October 2022.		
	IT Infrastructure Planning	1/01/22	31/08/22 (not yet due)	22 August 2022: A follow up review has recently been undertaken (remains in draft). During the audit it was identified that while work has occurred to establish reporting on the number of devices within the IT estate, such reporting is not currently in place. TS are aware of this action and are looking to establish such reporting before the implementation of Device as a Service (DaaS), which is expected to occur in June 2023 if the Business Case is approved. The recommendation remains open but a reduced risk exposure has been noted.	Head of Technology Operations	Major
	Leavers Not on The Corporate System (TCS) and Inactive Assets	01/09/22 (not yet due)	31/12/22 (not yet due)	22 August 2022: A follow up review has recently been undertaken (remains in draft). Testing evidenced that there are still issues in recovering assets from Non-TCS (now Non-MyOracle) Leavers. The recommendation remains open with plans in place to address the residual risk by the end of December 2022.	Head of Technology Operations	Major
Country Parks (2021 PPH9)	Stocktake and Reconciliations	31/12/21		30 May 2022: Have now offered a preferred candidate the Food & Beverage Manager position with a target start date of 18/07/22. Noted that there had been recruitment difficulties for this position, which delayed full implementation. Audit Comment: An Internal Audit follow-up review of Country Parks is planned for 2022/23.	Commercial Operations Manager	Major
	Absence of a stock write off and stock discounting procedures	31/12/21			Commercial Operations Manager	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		26 August 2022: A follow up review has recently been undertaken (remains in draft). There is evidence of increased engagement with Councillors, ECC Services, District and Borough Councils, and Heads of Service, which is enhancing the Service's visibility across ECC. As yet, funding decisions have not been agreed. As such, the financial constraints in which the Gypsy & Travellers Service is working are still in place and will determine the future planning for the Service. The recommendation remains open.	Wellbeing, Place and Communities Lead	Major
	Site Risk Assessments	31/10/21		26 August 2022: A follow up review has recently been undertaken (remains in draft). Progress is evident with the implementation of statutory inspections. However, non-statutory inspections remain a work in progress. The recommendation remains open but a reduced risk exposure has been noted.	Wellbeing, Place and Communities Lead	Major
Accounts Receivable (2122 FT12AR)	Advanced Collections Screen	31/12/22 (not yet due)		02 August 2022: A process is in place to continue to chase Evosys to resolve the issue with the Advanced Collections Screen. Once the fix has been applied, and has been tested, MyOracle will be utilised to monitor, manage and chase debt and cease the use of the Excel-based portfolios.	Service Manager, Finance	Major
Housing Infrastructure Fund (HIF) (2122 FT19)	Disconnect between Bid and Delivery	30/09/22 (not yet due)		04 July 2022: Verbal assurance received to suggest that the structure of the Highways and Transportation service now allows for individuals involved in the bidding stage and the delivery stage to better coordinate. Advised that the relevant project	Director Highways & Transport	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
				sponsor is now involved with the bid process to allow them to assess the feasibility of the bid. Once supporting evidence is provided this action can be closed.		