

Report title: Internal Audit and Counter Fraud Progress Report	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes – Head of Assurance	
Date: 22 March 2021	For: Discussion
Enquiries to: Paula Clowes – Head of Assurance paula.clowes@essex.gov.uk	
County Divisions affected: All Essex	

1. Purpose of Report

- 1.1 The Audit Governance and Standards Committee has a role to maintain oversight and to monitor the effectiveness of internal controls, governance and risk management arrangements as well as the work of Internal Audit and Counter Fraud.
- 1.2 This report provides the Committee with the current position regarding activity in relation to the 2020/21 Internal Audit and Counter Fraud Plan (approved by the Audit, Governance and Standards Committee in July 2020). It reflects the situation as at 28 February 2021.
- 1.3 As part of the Committee's role to assess the adequacy of the Council's internal control environment, the Committee also receives regular updates on progress being made by service areas on whether timely and effective remedial action is being taken to resolve any significant control weaknesses that have been identified through our Internal Audit work.
- 1.4 The activity undertaken by Internal Audit and Counter Fraud in 2020/21, 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 2020/21 Annual Governance Statement.

2. Recommendation

- 2.1 The progress in audit and counter fraud activity be noted.
- 2.2 The changes to the 2020/2021 Internal Audit and Counter Fraud plan, as outlined in appendix 4, are approved.

3. Key Issues

- 3.1 The following matters are of particular note:
 - No reports received a 'No Assurance' rating during the period

- One audit was finalised in December 2020 and received a ‘Limited Assurance’ rating – Libraries – Stock, Fees and Charges. The Head of Service is attending this meeting to report on progress
- As at 1 March 2021, six Major Internal Audit recommendations are more than one month overdue and 38 Moderate recommendations are more than 6 months overdue.
- A full review of the 2020/2021 Internal Audit and Counter Fraud Plan was conducted in December 2020. The changes are outlined in appendix 4 of this report. The Committee are asked to approve these changes

4. Details of Internal Audit and Counter Fraud Activity

4.1 Final Internal Audit Reports Issued

4.1.1 When Internal Audit issues a report it gives an overall assurance rating which is either ‘Good’ ‘Satisfactory’ ‘Limited’ or ‘No’ Assurance. Nine final reports have been issued since the November 2020 Audit, Governance and Standards Committee:

Assurance Rating	Audit Title
Good	Access Support Unit
Satisfactory	Journals and Virements
Satisfactory	Members Locality Fund
Satisfactory	Meaningful Lives Matter
Satisfactory	Health and Safety
Satisfactory	Essex Pay
Satisfactory	Employee Expenses
Limited	Libraries – Stock, Fees and Charges

In addition, we carried out a review of Output VAT for the following service areas:

- Essex Country Parks
- Essex Outdoor Centres
- Essex Records Office
- Essex Arts and Culture

The Executive Summary for the Limited Assurance review is included in Appendix 1. A representative of the Libraries Service is attending the March 2021 AGS Committee to provide an update on progress in implementing these recommendations.

In addition, we have completed the following grant claims:

- SCITT / Teacher Training Bursaries – a qualified opinion was provided
- LECSEA – Local Energy Communities for the Two Seas Region – no issues identified

4.2 Implementation of Internal Audit Recommendations

- 4.2.1 Whenever any recommendations are made in an audit report, Managers are asked to agree what activity they will undertake to address the recommendations and to agree timescales for implementation.
- 4.2.2 Progress on the implementation of recommendations is monitored by the Internal Audit service.
- 4.2.3 Critical or Major recommendations which have not been implemented within the agreed timescale are reported to the Audit, Governance and Standards Committee. Outstanding recommendations are also provided periodically to Functional Leadership Teams (FLT).
- 4.2.4 As at 1 March 2021 there were 3 Critical, 14 Major and 92 Moderate recommendations open, of which 6 Major are more than one month overdue and 38 Moderate recommendations are more than 6 months overdue. See Appendix 3 for further detail on the overdue Major recommendations.
- 4.2.5 The current assessment rationale for grading the priority of recommendations made and the level of assurance (audit opinion) for each individual audit review is attached at Appendix 2.

4.3 Changes to the 2020/2021 Internal Audit and Counter Fraud Plan

- 4.3.1 In December 2020 a full review of the 2020/2021 Internal Audit and Counter Fraud was carried out. This report is seeking committee approval for a number of changes to be made to the 20/21 the plan, in the main due to the impact on ECC services of the Covid-19 pandemic. The proposed changes have been notified to the Councils section 151 officer in line with the Internal Audit Charter. A full breakdown of the requested changes with rationale is attached at Appendix 4.

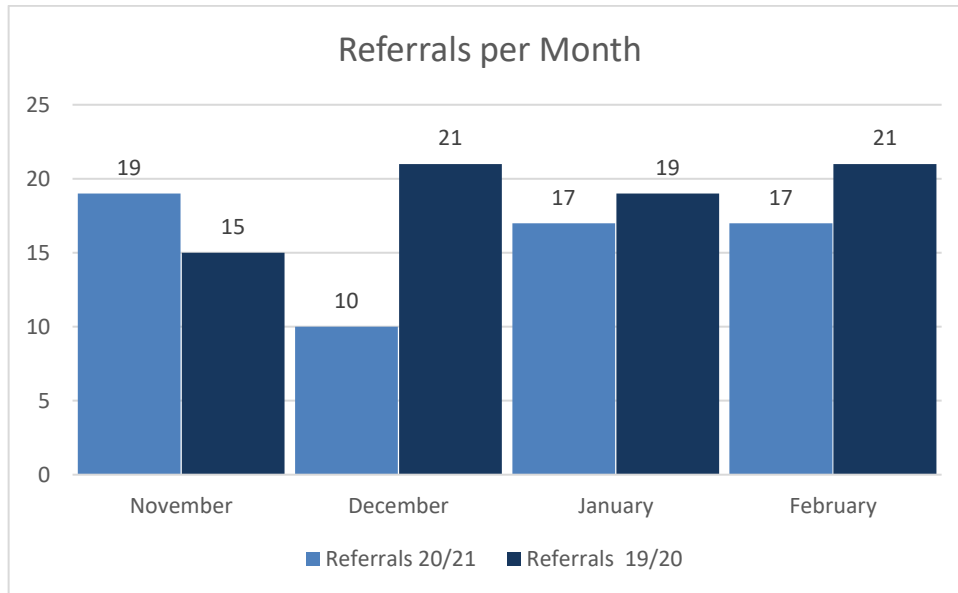
4.4 Counter Fraud Activity

- 4.4.1 The Counter Fraud Team has a remit to prevent, detect and investigate fraud. This includes proactive work utilising data matching and analytical work. In some cases we will pursue sanction through the civil or criminal courts and where possible seek to recover lost/stolen monies.

Fraud Referrals

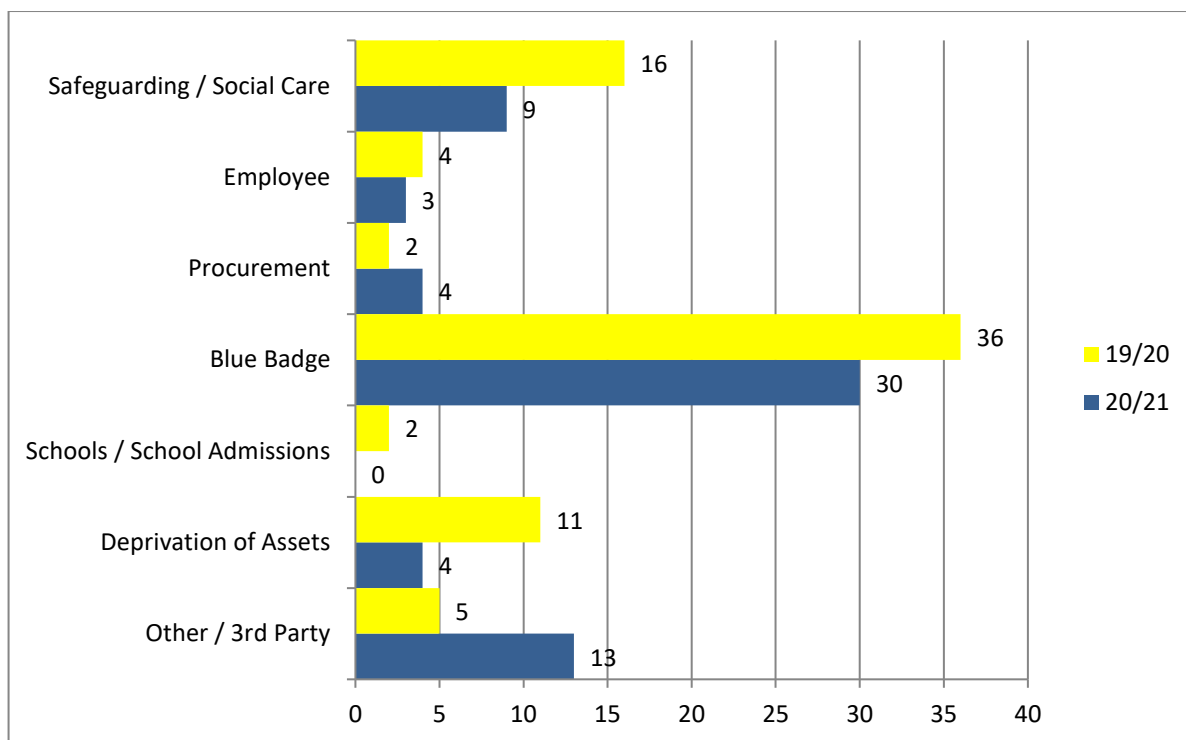
- 4.4.2 During the 4 month period 1 November 2020 to 28 February 2021, 63 referrals were received (including blue badge referrals). The table below shows how this compares to the same reporting period last year and demonstrates that

the number of referrals received this year is slightly lower than the numbers received last year (76 referrals were received during the reporting period November to February last year, a 4 month reporting period). Although the Counter Fraud Team experienced a reduction in the number of referrals received during the first few months of the pandemic, we are now experiencing a return to near normal levels for most areas although still a reduction in the number of Blue Badge related referrals.



Types of Referrals

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



Internal Data Matching

4.4.4 The Counter Fraud team includes a Data and Intelligence Specialist. Data matching / analytical work has been completed during the 4 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.
- Creditor payments – a review to identify whether one-off payments have been made to dormant providers (as a result of an issue identified as part of the Covid grant payments to providers).
- Payroll – a review of payroll deductions (as a result of a discrepancy in the calculation of payroll deductions)

Essex Council Tax Data Matching Initiative

4.4.5 The Council is supporting an Essex-wide data matching project that involves all councils providing data to ensure that income received from council tax is maximised. ECC provides data sets to support the data matching which is now undertaken on a monthly basis and the Counter Fraud Team provides support to districts in dealing with the output. Total cumulative savings recorded as at 28 February 2021 (from July 2017) are **£2,101,594**.

National Fraud Initiative Data Matching Exercise and NFI Fraud Hub

4.4.6 The National Fraud Initiative is a biennial exercise overseen by the Cabinet Office. This is a mandatory exercise which all public sector bodies participate

in, submitting prescribed data sets to the Cabinet Office to facilitate a national data matching exercise to be completed. The Counter Fraud Team have submitted all required datasets to the Cabinet Office during the beginning of October 2020. Several matches have been returned and are in the process of being investigated.

4.4.7 In addition to the mandatory data matching, the Counter Fraud Team subscribed to the NFI Fraud Hub in March 2020. 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 have been 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 or suspension of benefits.

Fraud Awareness Training

4.4.8 At present, *81.4% of all ECC staff have completed the e-learning modules relating to:

- Anti-fraud and corruption
- Anti-bribery and money laundering.

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

Outcomes

4.4.10 During the period 1 November 2020 to 28 February 2021, the following outcomes and sanctions have been achieved:

Outcome Type	Q4 20/21	Q4 19/20
Prosecution	0	0
Written / Verbal Warning	0	1
No fraud established	4	7
Other outcome* / recovery of funds	0	7

Referred to third party	1	0
Blue Badges – Misuse letter issued	4	2
Blue Badges - Seized	2	3
ASC - Financial recovery	2	2
ASC - PB terminated	1	0
ASC - payment stopped / reduced	2	1

*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 and support provided where potential misuse of personal budgets identified.

Financial Recoveries

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

Financial Recovery	1 December 2019 to 29 February 2020	1 November 2020 to 28 February 2021
	£	£
In recovery	5,130.87	13,244.20
Monies actually recovered	8,100.00	1,485.71
Potential future losses prevented	0.00	0.00
Estimated losses (unproven)	78,466.94	0.00
Total case value	91,697.81	14,729.91

The future losses prevented mainly related to personal budgets (adult social care) which have been reduced or terminated during the year due to fraud or misrepresentation of circumstances, such as care needs have been overstated, misuse of funds, deprivation of assets. Future losses are estimated as the annual value of a personal budget (i.e. the cost to ECC if the personal budget had continued to be paid until the next social care review).

4.4.12 Notional savings of £1,150 have also been identified as 2 expired blue badges have been taken out of circulation, each badge being attributed a value of £575 (figure determined by the Cabinet Office).

5. Financial Implications

5.1 There are no financial implications as the Internal Audit and Counter Fraud activity 2020/21 will be met within existing resources.

6. Legal Implications

- 6.1 Internal Audit is a key way in which councillors can be assured that the Council is using its resources effectively and that the Council is discharging its fiduciary duties concerning taxpayers' money. It helps services to design systems which have appropriate controls and also helps identify and respond to breaches if they occur. This report seeks to update the Audit, Governance and Standards Committee on the activities of the Council's Internal Audit and Counter Fraud service for the purposes of providing further assurance.

7. Equality and Diversity Implications

- 7.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when ECC makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

- 7.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. Equality and diversity matters have been considered in the production of the progress report.

8. List of Appendices

- Appendix 1 Executive Summary – Limited Assurance Report
Appendix 2 Current assessment rationale for grading the priority of recommendations in Internal Audit reports.
Appendix 3 Overdue Major Recommendations as at 1 March 2021
Appendix 4 Changes made to the 20/21 Audit Plan.

9. List of Background Papers

- Internal Audit reports
Internal Audit and Counter Fraud Plan for 2020-21
Internal Audit Charter