

Item No. 12.	Classification: Open	Date: 16 November 2016	Meeting Name: Audit, Governance and Standards Committee
Report title:		Progress report on the work of the internal audit and anti-fraud teams for the period 1 July 2016 to 17 October 2016	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATION

1. That the audit, governance and standards committee note the progress report on the work of the internal audit and anti-fraud teams for the period 1 July 2016 to 17 October 2016.

BACKGROUND INFORMATION

2. The progress reports summarise the work undertaken by the anti-fraud and internal audit teams to date relating to on-going anti-fraud initiatives and investigations and the results of internal audit work where final reports have been issued.

Member questions

3. In response to the minutes from previous meetings:
4. The head of anti-fraud and internal audit was asked by the committee to look at risks around redundancy and contingency planning in light of retrospective contract decisions seen by the committee. This will be considered and discussed as part of the 2017-18 planning process.
5. The head of anti-fraud and internal audit was asked to examine the process around a Gateway 1, essential parts of the contracts process for the school's programme. This matter will be considered as part of the annual audit of regeneration projects, which is due to be undertaken in quarter four of the 2006-17.

Internal audit

6. The following section sets out the internal audit assurance for the reports finalised in the period 1 July 2016 to 17 October 2016. The definitions of the assurance levels that have been awarded depending on the audit findings, associated risk and consequently the number of high, medium and low recommendations are as follows:

Assurance level	Opinion
Red	Taking account of the issues identified, the council cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed. (This is a negative opinion)

Assurance level	Opinion
Amber / Red	Taking account of the issues identified, whilst the council can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed. (This is a positive opinion)
Amber / Green	Taking account of the issues identified, the council can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising. (This is a positive opinion)
Green	Taking account of the issues identified, the council can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. (This is a positive opinion)

7. The priorities of the recommendations made are:

Priority	Description
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may, with a high degree of certainty, lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
Low	There is scope for enhancing control or improving efficiency and quality.
Suggestion	These are not formal recommendations that affect our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Summary

8. The following table sets out the areas of work where reports have been finalised and the assurance levels achieved for the period:

Audit area	Red	Amber / Red	Amber / Green	Green	Totals
Corporate audits	0	0	1	0	1
Departmental audits	0	5	3	0	8
IT audits	1	0	0	0	1
Key financial systems	0	0	1	0	1
Thematic reviews	0	0	0	0	0
Totals	1	5	5	0	11

9. The progress made in the implementation of the recommendations is monitored through the internal audit follow-up process and is reported to the audit, governance and standards committee.

Individual reports completed from 1 July 2016 to 17 October 2016

Corporate audits

Fees and charges

10. Overall the controls in place in respect of the annual fees and charges process were found to be suitably designed. However areas of non-compliance were identified from sample testing undertaken. Two medium recommendations were raised to improve the controls over the communication of approved fees via all mediums and the accuracy in the application of fees approved by cabinet to service users. Low recommendations were made in relation to minor weaknesses in the design of existing controls. Management agreed to implement all of the recommendations by April 2017; therefore internal audit will carry out a follow up in May 2017.

Report issued:	Recommendations:			Assurance level:
1 September 2016	High: 0	Medium: 2	Low: 6	Amber/Green

Departmental audits

Control framework compliance - income management - parking

11. A sound set of controls is in place with regards to the processing of parking fines and that overall is being complied with. More risk is present in the collection and handling of the physical cash income and two medium recommendations were made to address the need for more frequent ticket roll inspections to ensure that a record of cash collected is available, and the lack of segregation of duties during the counting of cash collected. Six low recommendations were made for minor compliance and to strengthen the existing controls. Management agreed to implement the audit recommendations by the end of September 2016 therefore a follow up is underway.

Report issued:	Recommendations:			Assurance level:
21 July 2016	High: 0	Medium: 2	Low: 6	Amber/Green

Control framework compliance - income management - pest control

12. The audit identified a number of weaknesses in the control framework with regards to income collection and management, and non-compliance with a number of controls that should have been in place. A high recommendation was made to identify the need for an overall control framework review relating to income management. This is in order to mitigate the potential risk of financial loss and irregularity, particularly to address the current lack of reconciliations from expected income, monies actually collected and then subsequently processed for banking. Medium recommendations were made in respect of a lack of adequate controls over requests for services, income collection and banking. Low recommendations were made to reflect the need for more formalised procedures regarding income collection and banking, and for the creation of action plans to investigate variances from budgeted spend. Management implemented a number of the recommendations immediately following the issuing of the draft report and the remaining by the end of August, therefore a follow up is underway.

Report issued:	Recommendations:			Assurance level:
1 August 2016	High: 1	Medium: 8	Low: 5	Amber/Red

Learning disability payments

13. The audit identified a general lack of compliance with the standard procedures around the uploading of relevant documents to the care management systems. A significant number of documents were missing or unavailable to review at the time of the audit. Consequently internal audit could not in all cases confirm that the support plans were current, had been subject to appropriate approval and that accurate payment for services were being made. A high recommendation was made in respect of the need to upload and retain support plans and panel approval for all users within the learning disabilities programme. Two medium recommendations were made in respect of the uploading of all financial assessments and the need to carry out six week reviews and to ensure that they are clearly evidenced. Three low recommendations were made in respect of minor compliance and control issues. Management agreed to implement all of the recommendations by the end of September 2016 therefore internal audit will carry out a follow up in October 2016.

Report issued:	Recommendations:			Assurance level:
18 August 2016	High: 1	Medium: 2	Low: 3	Amber/Red

Commercial property portfolio

14. The audit confirmed that there is a clear strategy in respect of the development and maintenance of the council's commercial property strategy with critical success factors agreed, written lease agreements are in place and appropriate monitoring of income due is being undertaken. Four medium recommendations were made to enhance controls to monitor the delivery of the asset management plan, the absence of disaster recovery testing, and a lack of segregation of duties over amendments to records and reconciliations undertaken with regards to the primary system used (Manhattan). Low recommendations were made to address minor non-compliance and administrative issues. Management have agreed to implement all recommendations except one low, which is due for implementation in March 2017, by the end of November 2016. Internal audit will carry out a follow up in December 2016.

Report issued:	Recommendations:			Assurance level:
15 September 2016	High: 0	Medium: 4	Low: 6	Amber/Green

Control framework compliance - income management – cemeteries and crematoria

15. The control framework in place is generally adequate with regards to the identification and invoicing of income due from services relating to cemetery and crematoria. The key finding from the audit was that there had been a small number of incidences of the incorrect application of fees and charges approved by cabinet in 2015-16 and 2016-17 due to an administrative error. This has now been rectified for 2016-17. The one high recommendation related to this issue. Three low recommendations were also made to address minor compliance and administrative issues. Since August 2016 cash and cheques are no longer collected by cemeteries and crematoria due to the implementation of an online payments system, therefore the risks relating to cash handling have been mitigated. Management have agreed to implement all recommendations by the end of March 2017 therefore a follow up will be carried out in April 2017.

Report issued:	Recommendations:			Assurance level:
23 September 2016	High: 1	Medium: 0	Low: 3	Amber/Red

Housing solutions services

16. This audit considered four services within the housing solutions service: direct housing payments; homelessness reviews; fraud and validation; and private rented sector and assistance. The audit identified that the control framework across the four services required strengthening to ensure a consistency of approach and effective monitoring, review and action with regards to decisions made. A number of areas of non-compliance with the controls were identified: a need for improved document retention and increased centralised overview to support decisions made and the need to restrict access to information. Eight recommendations across the four teams were made to address these issues. One overarching medium recommendation was also raised relating to the introduction of a framework to ensure consistency for recording, investigating, authorising actions and security over investigation data within the fraud and validation team. Some of the issues identified though the audit are already being addressed through the use of the council's InCase system. Low recommendations were raised to address minor compliance and procedural issues, a need for increased communications and a lack of clear delegated responsibility in management absence. Since the time of the internal audit fieldwork management advised that a number of the recommendations have already been implemented to reduce the risks identified through the audit. A formal follow up is to be undertaken in December 2016 to verify the implementation of the recommendations.

Report issued:	Recommendations:			Assurance level:
23 September 2016	High: 0	Medium: 9	Low: 12	Amber/Red

Regulatory business unit - trading standards, food safety and health and safety

17. The controls in place were generally found to be adequate although more routine and consistent compliance with those controls is required across the three services, including the need for formal discussion and action plans to address monthly targets not being achieved and the updating of the system in a timelier manner. Three medium recommendations were made in respect of these areas. For the Health and Safety

service, a further medium recommendation was made in respect of the need for evidence to support the completion of category A inspections. Low recommendations were made to further improve the design of existing controls and address minor lapses in compliance with existing controls. Management has agreed to implement all of the recommendations by the end of January 2017 therefore a follow up will be carried out in February 2017.

Report issued:	Recommendations:			Assurance level:
23 September 2016	High: 0	Medium: 4	Low: 4	Amber/Green

Planning applications

18. An established process is in place with clarity of roles and responsibilities and information required to support the progression of pre-planning applications and planning applications. However, the control framework needs to be improved to ensure the completeness of planning performance agreements, communication and agreement of fees, and amount of work required, prior to the commencement of work by the council's officers. There is also a need for the retention of budget monitoring information with detailed explanatory notes for large variances. We made five medium recommendations to address these issues. In addition, low recommendations were made to address the need for formalised procedures relating to the collection of fees, inadequate separation of duties and the need to identify fees held in suspense accounts. There was also a lack of consistency and compliance regarding the retention and location of documents. At the time that the final report was issued, management advised that a number of recommendations had already been implemented or were in progress. A follow up audit will be carried out in December 2016.

Report issued:	Recommendations:			Assurance level:
5 October 2016	High: 0	Medium: 5	Low: 7	Amber/Red

IT audits

IT improvement programme (priority work programme) – key applications

19. Although some applications are well managed, a number of themes were identified regarding general IT control gaps. We made one high recommendation due to the absence of ICT department expectations of business owners/system owners or standards for systems operation; there is not an approved framework in place to ensure the availability and security of all applications considered by the audit. This has led to a lack of formal processes for granting, modifying and terminating user access for the business systems reviewed, periodic user access reviews and approved backup arrangements and schedules that satisfy business recovery expectations. In addition the council's disaster recovery arrangements do not include the applications in the sample tested in this audit. We made two medium recommendations due to the absence of an information system asset register and to address weaknesses in the council's leaver's process. Management agreed to implement all of the recommendations by the end of November 2016 therefore a follow up will be carried out in December 2016.

Report issued:	Recommendations:			Assurance level:
9 August 2016	High: 1	Medium: 2	Low: 1	Red

Key financial systems

National non-domestic rates

20. The NNDR team has well-established procedures in place that support compliance with the control framework. Two medium recommendations were raised relating to the review and authorisation of evaluation forms by management, and clearance of the suspense account on a routine and regular basis. The timeliness of the suspense clearing has been raised previously by internal audit. Low recommendations were made for minor weaknesses in the design of existing controls. Management has agreed to implement all of the recommendations by the end of September 2016, therefore a follow up audit will be carried out in October 2016. Overall, controls in place were found to be suitably designed and consistently applied.

Report issued:	Recommendations:			Assurance level:
10 August 2016	High: 0	Medium: 2	Low: 4	Amber/Green

Follow up work

Summary

21. Since our last report to committee we have followed up 38 recommendations. Of these: 23 (61%) had been fully implemented, 5 (13%) were in progress and 11 (26%) had not been implemented.
22. Where recommendations have not been implemented at the time of the initial follow-up review revised implementation dates are agreed with management and a further follow up review is scheduled.
23. Three high recommendations have been followed up since the last report to the committee. Of these, one had been fully implemented and two had not been implemented within revised timeframes and were ongoing, as summarised below:

Audit	Recommendation	Date Due	Status
2014/15 internal audit plan – data management (children’s services)	Staff should be reminded that sensitive and confidential information should not be left unattended and should be stored in the appropriate cupboard at the end of the working day. Reminders could take the form of: team meetings, practical workshops to identify areas of non-compliance and solutions, more posters in kitchens, around vending machines and in meeting rooms, publicity around the implication of data breaches, to the council and for individuals. Internal audit was informed that the delay in the implementation of actions agreed has been due to a change in responsibility for the implementation of these recommendations. The implementation will now be raised at management meetings and data security issues incorporated into staff members’ work plans.	Ongoing (originally to be reviewed in September 2015)	Ongoing A further follow up is underway

Audit	Recommendation	Date Due	Status
2014/15 internal audit plan – multi-disciplinary safeguarding hub	A membership application form should only be processed and access granted to the MAISy system once the form has been completed correctly and the appropriate signatures are present. Internal audit sample testing has identified instances of non-compliance with this control.	Ongoing (as at the first follow up in April 2016)	Ongoing A further follow up is underway

24. We will continue to report all instances where high level recommendations have not been implemented by their due dates. If the implementation date is exceeded by more than three months, this will be reported to the committee.

Key performance indicators

25. The following table identifies the key performance indicators which are used to monitor the contractor and the service's performance for the current contract, which ends on 30 November 2016:

	Target	Actual
The agreed 60% of the audit plan to be completed to draft by the end of the November. The completion of the plan is to the satisfaction of the Authorised Officer and in line with the specification.	60%	To be reported to the next meeting. RSM is on target to meet this KPI.

26. To date, other than changes to the original timing of some audits to accommodate circumstances such as changes in legislation or management, there have been no changes to the approved internal audit plan.

27. The total internal audit plan to be completed by 31 March 2017 is summarised below:

Area	Original audit plan	Added	Cancelled
Corporate audits	2	0	0
Thematic reviews	2	0	0
Departmental audits	33	0	0
Key financial systems	7	0	0
IT audits	3	0	0
Schools	25	0	0
Totals	72	0	0

Anti-fraud

28. This section of the report provides an annual review of the anti-fraud work conducted between 1 April 2016 and 30 September 2016.
29. The anti-fraud team work is split in to two categories:
- Reactive work, which is the response to reports and allegations of fraud
 - Proactive work, which includes initiatives to identify fraud and to prevent fraud.
30. The anti-fraud work is conducted by two anti-fraud teams, who are:
- Anti-fraud services, which investigates all cases involving the council's employees, agents, contractors, anyone else conducting business for or with the council, and members of the public. There are multiple types of fraud this could include, some of which are theft, council tax fraud, significant financial fraud, procurement fraud, grant fraud, national non-domestic rates fraud or evasion, false documents, identities and applications, and immigration offences.
 - The special investigation team, which investigates housing tenancy fraud in respect of the housing stock owned and managed by the council and other social housing where legislation directs that a local authority has specific responsibility. This includes cases of unlawful subletting, non-occupation, succession, assignment, mutual exchange, and right to buy.

Reactive anti-fraud work

31. The number of referrals received through the council's website, fraud email, fraud hotline and by letter for the two anti-fraud teams between 1 April 2016 and 30 September 2016 has been 398.
32. Table 1 below shows the number of cases that have resulted in a successful sanction for each of the two anti-fraud teams from 1 April 2016 to 30 September 2016.

Anti-Fraud Team	Number of Sanctions 2016-17	Equivalent Number of Sanctions 2015-16
Anti-fraud services	12	9
Special investigations team	30*	34
Total	42	43

Table 1 – Sanctions for period 1 April 2016 to 30 September 2016

*Housing management has recovered an additional 50 properties, and the special investigations team has undertaken an additional 8 preventative actions, which can include a right to buy being stopped or a tenancy succession claim being cancelled, for example.

Operation Strike

33. On 14 October a former member of staff was sentenced to three years imprisonment, and two co-conspirators were each sentenced to 16 months imprisonment. This related to NNDR, and was identified by the service and promptly referred to the anti-fraud team.
34. Controls and processes have been reviewed by internal audit and measures have been put in place to prevent this from occurring in the future.

Proceeds of Crime Act

35. The Proceeds of Crime Act 2002 (POCA) provides for the confiscation or civil recovery of the proceeds from crime and contains the principal money laundering legislation in the UK. This work acts as an important deterrent to show that crime against the council does not pay.
36. Between 1 April 2016 and 30 September 2016, successful work in this area, which has included Operation Bronze, has resulted in the courts recognising that those we have prosecuted have benefited from their criminal conduct to the value of £204,184. This is an increase of 74% on the same period during 2015-16. A total of £56,006 has also been received from the proceeds of crime work for the year to date from available assets.

Proactive anti-fraud work

Operation Bronze

37. One of Southwark council's biggest fraud investigations, Operation Bronze, has ended with the successful prosecution of three further defendants linked to Trudy Ali-Balogun, a former council employee recently jailed for four years, for processing fraudulent housing applications.
38. Theresa Okondunjokanm, Florence Allen and Raphael Djeugam were all in receipt of council homes obtained using fraudulent documentation processed by Trudy Ali-Balogun. All three were found guilty of obtaining services by deception (Theft Act 1978) at Woolwich Crown Court.
39. Ms Okondunjokanma was also sentenced to 18 months imprisonment; this included a first for the council, as Ms Okondunjokanma was also sentenced for illegally subletting a secured tenancy under the Prevention of Social Housing Fraud Act 2013. The new law was introduced by the government to give local authorities greater powers to tackle housing fraud.
40. Florence Allen and Mr Raphael Djeugam were ordered to serve 15 months and two years respectively in prison for their crimes.
41. Operation Bronze has resulted in 38 convictions and the recovery of 43 properties.

National Fraud Initiative (NFI)

42. Data for the 2016-17 biennial NFI cycle has been submitted to the Cabinet Office. The results are expected to be released late January 2017 and will be reported to committee in due course.

London Counter Fraud Hub (LCFH)

43. The LCFH is a pan-London data exchange to ensure local authorities are making maximum use of their own records to fight fraud such as procurement deception, council tax evasion and illegal council housing tenancy sub-lets.
44. The hub matches local authority data with records held throughout the capital to prevent fraud and identify losses for investigation and recovery.
45. The Chartered Institute of Public Finance and Accountancy (CIPFA) has been appointed to provide data analytics for the LCFH after a procurement originated and led by Ealing Council.
46. The hub has received a Department for Communities and Local Government grant and the contract with CIPFA will operate on a payment-by-results basis
47. Southwark is one of five authorities selected to take part in the initial pilot phase, which will include data matching for false claims for single persons discount, business rates and tenancy subletting.
48. This work should complement the NFI as it is planned to be run monthly.

Policy implications

49. This report is not considered to have direct policy implications.

Community impact statement

50. This report is not considered to have direct impact on local people and communities.

Resource implications

51. This report is not considered to have direct impact on resource implications.

Consultation

52. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

53. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None.		

APPENDICES

No.	Title
Appendix 1	Grant Thornton Annual audit letter year ended 31 March 2016

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Mike Pinder, Head of Anti-Fraud and Internal Audit	
Version	Final	
Dated	4 November 2016	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Strategic Director of Finance and Governance	No	No
Director of Law and Democracy	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	4 November 2016	