

The London Borough of Lambeth

Internal Audit and Counter Fraud Progress Report

Corporate Committee

24 January 2019



1. Executive Summary

1.1 Purpose of this report

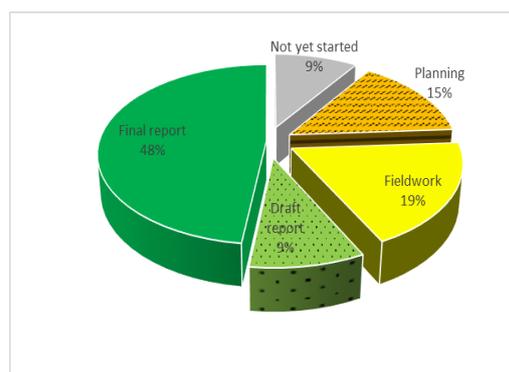
Internal Audit provides assurance to the Management Board, Corporate Committee and all levels of management about the adequacy and effectiveness of operations, compliance with laws and regulations, accuracy and reliability of management reporting, and the safeguarding of assets and other interests. This is achieved by undertaking independent reviews, which evaluate the organisation's internal control framework. Where necessary, actions are agreed with managers to introduce good practice and improve control throughout the organisation. This work forms an important part of the governance arrangements for the Council.

A risk-based plan for internal audit and counter fraud work during 2018/19 was approved by the Corporate Committee in March 2018. This report summarises the work undertaken against those plans since the last meeting of the Assurance Board and brings to your attention any matters that are relevant to your responsibilities.

1.2 Internal Audit

Delivery: 68 out of 75 audits in our Internal Audit Plan have commenced between April and 31 December 2018. This represents 91% of the internal audit programme. 43 out of 68 assignments (63%) have been issued as draft or final reports. Progress is summarised in the chart, with details for individual assignments shown in Annex 1.

Amendments: Since the last report, 5 assignments have been deferred. Details are provided in Section 2.



No Assurance/Limited Reports - In line with our reporting protocol for the Corporate Committee, we present four 'limited' or 'no' assurance' reports, which have been issued since the last meeting. Details of key findings from these audits are presented in Section 2.

- Children's Services: Complaints and Freedom of Information (Limited assurance);
- Schools Audit Programme: Jessop & Stockwell Federation (No assurance);
- Clapham Manor Primary School (Limited assurance);
- Continuous Auditing & Monitoring – Period 1 (various assurances).

1.3 Counter Fraud

General Investigations – Between 1 April 2018 and 31 December 2018, 152 investigations have been completed; 67 have resulted in recovery of properties, sanctions or prosecutions being secured. The Team has 155 live investigations and 73 cases are currently with Housing and/or Legal Services for further action.

Internal Investigations – 29 investigation reports have been submitted and 30 investigations have been closed, of which 8 have resulted in dismissals, resignations and/or prosecutions, 2 resulted in final warnings with another 1 resulting in a local authority caution being accepted..

More details are provided in Section 4: Counter Fraud Progress.

2. Internal Audit Progress

2.1 Introduction

Details of all internal audit assignments completed to date are set out in Annex 1. To date, we have identified 162 areas for improvement, of which 19 are assessed as high risk.

The following table sets out the results of assignments completed since the last meeting:

Table 1: Internal Audit Assignments completed since November 2018

Directorate	Review Title	Assurance	Number of findings				
			Critical	High	Medium	Low	Advisory
Children's Services	Complaints and FOI	Limited	0	2	1	1	0
Children's - Schools	Elm Wood Primary (GHF)	Substantial	0	0	2	1	4
Children's - Schools	Kingswood Primary (GHF)	Substantial	0	0	1	1	4
Children's - Schools	Heathbrook Primary	Reasonable	0	0	5	0	0
Children's - Schools	Holy Trinity CE Primary	Reasonable	0	0	3	4	1
Children's - Schools	Jessop Stockwell Federation	No	0	3	5	1	0
Children's - Schools	Gipsy Hill Federation (GHF) Follow-up Review	Reasonable	0	1	1	2	0
Children's - Schools	Clapham Manor Primary	Limited	0	0	6	0	0
Children's Services	School Improvement and Finance	N/a	0	0	0	0	0
Children's Services	Troubled Families Claim 3	N/a	0	0	0	0	0
Corporate Resources	Continuous Auditing and Monitoring Period 1	Various	0	0	4	1	0
Corporate Resources	Performance Management	Reasonable	0	0	4	0	0
Corporate Resources	Business Continuity	N/a	0	2	3	4	0
Neighbourhoods & Growth	Community Safety: Prevent	N/a	0	2	1	2	0
Totals			0	10	36	17	9

2.2 Amendments

Since the last meeting, 5 planned assignments have been deferred. Details are shown in the following table. Annex 2 provides details of all changes that have been reported since April 2018.

Table 2: Changes to planned assignments since November 2018

Directorate	Assignment	Change	Reason for change
Corporate Resources	Recruitment	Deferred	The Council has engaged an external consultant to review all employee-related policies and procedures. Given that procedures are likely to change as a result, we will defer detailed audit until 2019/20, when we can review compliance with updated procedures. In the meantime, we will comment on control elements of revised policies and procedures as required.
Corporate Resources	Equalities		
Corporate Resources	Occupational Health		
Corporate Resources	Disciplinary Processes		
Corporate Resources	Gifts & Hospitality		

2.3 Limited or No Assurance reports issued since the last meeting

The following reports have been issued since the last meeting and assigned either a 'Limited' or 'No' assurance rating.

Children's Services: Complaints and Freedom of Information

Assurance	Number of findings				
Limited	Critical	High	Medium	Low	Advisory
	-	2	1	1	-

The audit found that the quality and timeliness of responses to complaints and FOI requests had improved compared to previous years. However, the team was struggling to meet timeframes for responding to complaints and FOI requests; this appeared to be due to staff turnover at a local service area level. We identified good practice in relation to policies and procedures, used of templates to ensure consistency in responses, compliant resolutions and monitoring. However, the following high risk findings were identified:

- **Complaints - timeliness and procedure** – None of the Stage 1 or Stage 2 complaints sampled were processed in the target timescale.
- **FOI - allocation and timeliness** – FOI requests should be directed to the Complaints Team Manager or Quality Assurance Team before being allocated to service areas however 2/20 (10%) of FOI requests tested did not follow this process. In addition, 6 out of a sample of 20 (30%) FOI requests were not processed within the regulatory timeframe of 20 days.

Schools Audit Programme: Jessop Stockwell Federation

Assurance	Number of findings				
No	Critical	High	Medium	Low	Advisory
	-	3	5	1	-

Jessop Primary School & Children's Centre and Stockwell Primary School & Children's Centre form the Jessop Stockwell Federation (the Federation). The schools were last audited in 2016/17 and the outcomes for both were Substantial assurance. This audit was conducted at the Federation in September 2018 and covered governance arrangements including safeguarding as well as procedures for key areas of financial administration. Three high risk findings were identified relating to:

- **Safeguarding:** The Federation had failed to confirm DBS status for a governor whose term ended on 29/09/18 but whose DBS had expired at 26/04/18. The current certificate presented during the audit, which noted positive disclosures and no risk assessment had been completed.
- **Expenditure:** The Federation had an outstanding energy bill of approximately £70k for which it had been informed of legal action.
- **Contracts:** The Federation did not have a contract register (or listing) to enable effective monitoring and management of ongoing contracts. Documentation for six out of 10 contractual arrangements could not be located.

In addition, five medium risk findings were identified. A follow-up of the previous internal audit reports was undertaken. Where recommendations were partially or not implemented, these have been superseded by recommendations in this audit.

Schools Audit Programme: Clapham Manor Primary School

Assurance	Number of findings				
Limited	Critical	High	Medium	Low	Advisory
	-	-	7	-	-

Clapham Manor Primary is a Community School that was last audited in 2015/16, when the outcome was Reasonable Assurance. This audit was conducted at the School in November 2018.

Although controls for safeguarding and income management were found to be operating effectively, medium-rated findings were identified in the following seven areas:

- **Governance:** the financial procedures required updating; the School was unable to demonstrate effective safeguarding for the use of electronic signatures and assets;
- **Employee Records:** statements of particulars relevant to current posts were not held on file or were not duly signed for all personnel files tested;
- **Financial monitoring and oversight:** budget setting had not been properly undertaken and fully loaded onto the finance system and all expenditure had not been committed against the current year outturn;
- **Bank reconciliations:** bank reconciliations were not always reviewed and signed off by the headteacher;
- **Voluntary funds:** records were incomplete, monthly reconciliations were not evident and the accounts had not been independently examined and reported annually to governors;
- **Expenditure:** The School was unable to demonstrate adequate safeguarding and accounting for petty cash and purchase card expenditure;
- **Contracts:** The School was unable to demonstrate compliance with the procurement process and proper administration for all contracts entered into.

A follow-up of the previous internal audit report found that three recommendations had not been fully implemented, one of which had been rated as high risk. These have been superseded by recommendations in the current audit.

Corporate Resources: Continuous Audit Monitoring - Period 1

Continuous Auditing and Monitoring (CAM) of key financial controls has been undertaken for the first period of 2018/19 for transactions undertaken between 1 February and 17 August 2018. Table 3 summarises the performance of each system for 2018/19 against the same systems tested in the last period of the previous year. This takes into account the number and extent of exceptions found during testing and the number and severity of control design improvements identified.

Overall performance

On the whole, we identified a decline in the control environment evident through:

- Negative direction of travel for 6/12 systems (50%). The remainder showed no change.
- While Cash & Bank was the only system to be assigned a red classification; the number of exceptions has increased across all the areas tested.

Recurrent themes

A key theme across our work relates to a lack of audit trail to demonstrate segregation of duties, timely performance and review of key controls, and appropriate authorisation. This continues to affect reconciliations.

Table 3: Summary of Continuous Audit Monitoring results

System	Rating	Rating	Direction of Travel (P1 v P2 2017/18)	Control Design Issues	
	2018/19 P1	2017/18 P2		2018/19 P1	2017/18 P2
Payroll	A ●	A ●	↔	1	1
Accounts Payable	A ●	A ●	↔	1	1
Accounts Receivable	A ●	G ●	↓	1	-
Cash and Bank	R ●	A ●	↓	-	-
Temporary Accommodation	A ●	G ●	↓	-	-
Housing Benefits	G ●	G ●	↔	-	-
Housing Rents	G ●	G ●	↔	-	-
Council Tax	A ●	G ●	↓	1	2
National Non-Domestic Rates	G ●	G ●	↔	-	-
Mosaic	A ●	G ●	↓	2	-
Pension Administration	A ●	G ●	↓	-	-
Matrix	A ●	A ●	↔	-	-

Context

A contributing factor for the decline appears to be the impact of the Oracle Cloud upgrade, which was rolled out in April 2018. This resulted in:

- Details of some of the sample transactions being held in the Oracle legacy system, access to which was not available at the time of audit.
- Reports required for reconciliations were in development at the time of the audit. The Oracle Board had assessed that the risk arising from unavailability of these reports should not prevent go-live on Oracle Cloud as the system integrity was assured and reconciliations could be and have been performed retrospectively. The reports were developed following Oracle Cloud system go-live as planned.

Management has confirmed that Oracle issues have now been addressed. In addition, manual reconciliation of bank accounts has been carried out since the audit for the Payables bank account and the General Fund bank account, and therefore, these are now up to date.

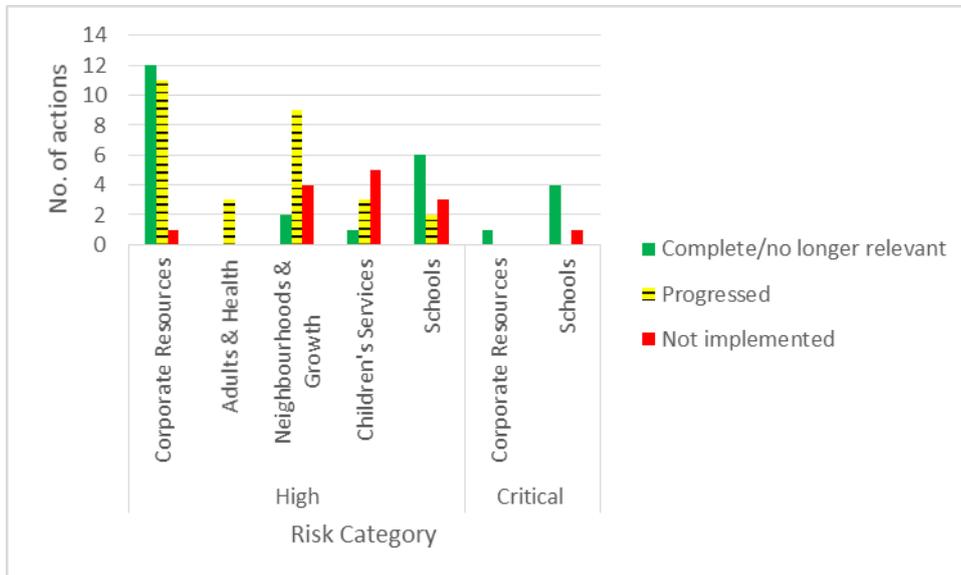
3. Progress with Management Actions

3.1 Tracking of internal audit recommendations

Since April 2018, progress has been tracked to assess managers' implementation of 68 critical and high risk actions with agreed implementation dates prior to 30 November 2018, which includes actions brought forward from previous years.

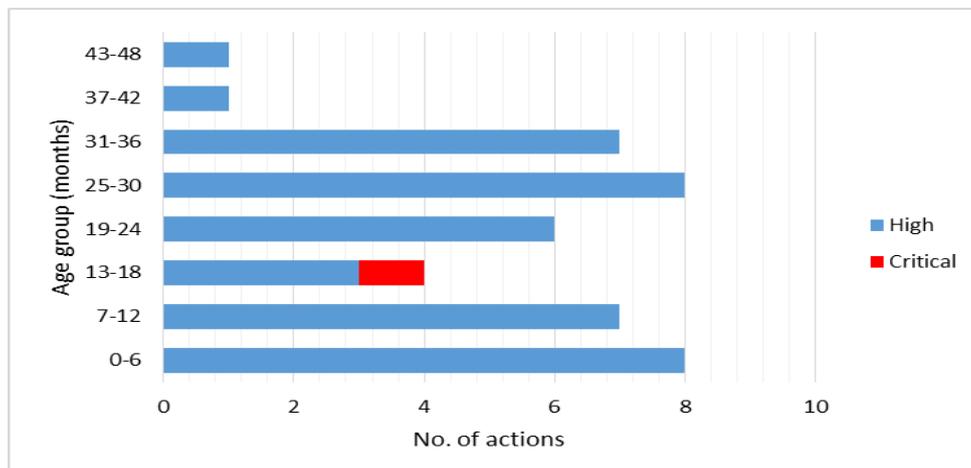
38% of the agreed actions are assessed as fully implemented or no longer relevant, which is an improvement since the last report to Corporate Committee, when the status was 19%. However, 21% are assessed as not implemented and 41% as partially implemented. A summary analysed for each directorate is shown in the following chart.

Chart 1: Managers' progress with implementation of agreed actions



There are 42 actions that have not yet been fully implemented, one of which is rated as critical risk (relating to an issue identified at St Andrews CE Primary School). The following chart provides an age profile for these, which shows that two of the actions have been outstanding for more than three years.

Chart 2: Age profile for outstanding actions



4. Counter Fraud Progress

4.1 Completed investigations

The table below contains details of outcomes for the period 01/04/2018 to 31/12/2018:

Table 4: Investigation outcomes for 2018/19 to 31 December 2018

General Investigations	Annual Target	Results to Date	Previous Year Results (Same Period)
Number of properties recommended for recovery	100	59	67
Number of properties recovered	80	55	48
Number of sanctions (cautions/administrative penalties)	10	6	4
Number of prosecutions	10	6	3
Financial Awards/Overpayments/Savings			
Property recovery savings (see 1)	£1.44m	£990,000	£864,000
Court costs awarded	N/A (see 2)	£64,662	£7,785
Council Tax overpayments	£18,000	£25,877	£21,503
Unlawful profit orders awarded	N/A (see 2)	£3,301	£2,832
Right to Buy discounts prevented	N/A	£211,000	£103,900
Compensation	N/A	£158,976	0.00
Proceeds of crime awards/costs	N/A (see 2)	£340.00	0.00
Total Awards/Overpayments/Savings	N/A	£1,454,156	£1,000,020

Notes

- (1) Properties recovered as a result of tenancy fraud investigations have historically been valued at £18,000 per property, the Audit Commissions average cost of housing a family in temporary accommodation.
- (2) Please note, court costs, unlawful profit orders and proceeds of crime awards don't have individual targets, but have a cumulative target of £100k.

Analysis of internal investigation cases across directorates is provided in the following table:

Table 5: Directorate analysis of completed investigations

Internal, Financial and Whistleblowing Investigations	Neighbourhoods & Growth	Corporate Resources	Adults	Children's	Schools	Other	Total
Reports Issued							
Internal	9	8	2	1		2	22
Whistleblowing	7						7
Outcomes							
Financial Investigation						1	1
Sanctions/warnings	1	1	1				3
Dismissals/resignations	4	2	2				8
Reports with recommendations	7		1	1		2	11

Internal, Financial and Whistleblowing Investigations	Neighbourhoods & Growth	Corporate Resources	Adults	Children's	Schools	Other	Total
Prosecutions							0
No further action	4	1	0	1	0	1	7
Total	16	4	4	2	0	4	30

4.2 Case Study

We have included a recent case study outlining Counter Fraud activity and savings identified for the Council below:

A former Lambeth tenant has pleaded guilty to two charges under the Fraud Act 2006.

Taghi Massoumi, formerly of Croxted Road, Tulse Hill, purchased his property under right to buy legislation in 2015 with a discount of £102,700. Concerns were raised with the Lambeth Counter Fraud team when a data match received from the National Fraud Initiative indicated that Massoumi was actually resident in Bristol at the time the property was purchased.

Enquiries were carried out and it was established that Massoumi had been resident in Bristol with his wife since 2008, whilst working for Bristol Council as an engineer. Evidence suggested that his Lambeth property was occupied by family members.

On 2 November 2018 Massoumi pleaded guilty at Inner London Crown Court to two offences under the Fraud Act 2006; for falsely representing that Croxted Road was his sole or main residence when he made the application to purchase the property, and for failing to disclose that he had ceased to occupy the property between 01 November 2008 and 16 June 2015.

On 11 December 2018 Massoumi was sentenced to 16 months in custody, suspended for 2 years, with the condition that he would face an electronic curfew between 10 pm and 6 am for a period of three months. In addition he would pay Lambeth Council compensation of £158,576.92 and prosecution costs of £1,920.00.

4.3 National Fraud Initiative Update

The NFI data for 2016/17 was made available to Lambeth in January 2017 and investigation has now been completed.

The exercise has identified 16,113 matches of which 2,448 are recommended matches. These are the cases that are recommended for consideration on the basis of risk. Although the suggestion is that these are potential indicators of fraud, in reality a majority are either mismatches or indicate errors in data input. The matches are separated into three categories; high, medium and low risk.

Lambeth officers have processed a total of 9,106, matches, including recommended matches, and cleared 8,770. Of those processed, 16 have been deemed to identify fraudulent activity and 309 have been identified as error, resulting in a total of £717,715 in overpayments, which is in the process of being recovered. A majority of the overpayments relate to housing benefits or council tax benefits with a small amount relating to overpaid pensions.

The new NFI exercise will commence early in 2019 with the new data expected in late January.

4.4 Transparency Data - Fraud

Each year, the Council is required to publish data in respect of the Local Government Transparency Code 2015 (the Code). The Code requires local authorities to publish the following information about their counter fraud work:

- number of occasions they use powers under the Prevention of Social Housing Fraud Regulations, or similar powers;
- total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud;
- total number (absolute and full time equivalent) of professionally accredited counter fraud specialists;
- total amount spent by the authority on the investigation and prosecution of fraud;
- total number of fraud cases investigated

Taking into account the investigative and prosecution functions within Internal Audit and Counter Fraud Services, Parking Services, Insurance and Legal Services, the following data has been compiled in line with the code for the calendar year 2018, which is presented with 2017 data for comparison.

Table 6: Transparency Data - Fraud

Description	2018	2017
Number of occasions Lambeth use powers under the Prevention of Social Housing Fraud Regulations, or similar powers	129	201
Total number of employees undertaking investigations and prosecutions of fraud	23	24
Number of full time equivalent employees undertaking investigations and prosecutions of fraud	16.1	15.6
Total number of professionally accredited counter fraud specialists	21	22
Number of full time equivalent of professionally accredited counter fraud specialists	15.7	15.3
Total amount spent by the authority on the investigation and prosecution of fraud	£1,008,545	£971,000
Total number of fraud cases investigated	453	399
Value of all fraud identified (requested by the Committee for inclusion)	£3,548,689	£3,259,252

Annex 1 – Progress status for 2018/19 Internal Audit Plan

Status	Review Title	Assurance
Adults and Public Health		
Draft Issued	Debt Collection	
Final Issued	Complaints and Freedom of Information (FOI)	Limited
Final Issued	Project and Programmes – HIV Prevention Programme	Reasonable
Deferred - to 2019/20	Integration with Health – Lambeth Together Strategy	
Draft Report issued	Financial processes in Day Services	
Children's Services		
Planning	Adoption (deferred from 2017/18)	
Final Issued	Youth Offending Service (YOS)	Reasonable
Fieldwork	Unaccompanied Asylum Seeking Children	
Final Issued	Complaints and FOI	Limited
Planning	Section 17 Payments	
Final Issued	Henry Fawcett Primary	Substantial
Final Issued	Hillmead Primary	Substantial
Final Issued	Immanuel & St Andrews CE Primary	Reasonable
Final Issued	Lilian Baylis Technology School (Secondary)	Substantial
Final Issued	St Helen's RC Primary	Limited
Final Issued	St Mark's CE Primary	Limited
Final Issued	Vauxhall Primary (Wyvern Fed)	Substantial
Final Issued	St John the Divine CE Primary	Reasonable
Final Issued	Elm Wood Primary (GHF)	Substantial
Final Issued	Kingswood Primary (GHF)	Substantial
Final Issued	Heathbrook Primary	Reasonable
Final Issued	Holy Trinity CE Primary	Reasonable
Final Issued	Jessop Stockwell Federation	No
Final Issued	Gipsy Hill Foundation (GHF) Follow-up Review	Reasonable
Final Issued	Clapham Manor Primary	Limited
Fieldwork	Schools Audits: Themed Review (GDPR)	
Fieldwork	Schools Audits: Summary Report	
Final Issued	Schools Financial Value Service (SFVS) Return	N/a
Final Issued	School Improvement and Finance (4953)	N/a
Planning	Library Services (deferred from 2017/18)	
Final Issued	Troubled Families Grant Claim 1	Advisory
Final Issued	Troubled Families Grant Claim 2 (Sept)	Advisory
Final Issued	Troubled Families Grant Claim 3 (Dec)	Advisory
Not yet due	Troubled Families Grant Claim 4 (Mar)	
Corporate Resources		
Planning	Purchase Cards	
Draft Report issued	Treasury Management	
Fieldwork	Budgetary Control, Savings and Medium Term Financial Strategy (MTFS)	
Deferred - to 2019/20	VAT	
Final Issued	Continuous Auditing and Monitoring Phase 1	Various
Final Issued	Supplier Failure	Advisory
Final Issued	Redress Scheme Assurance 1	N/a
Final Issued	Redress Scheme Assurance 2	N/a
Fieldwork	Redress Scheme Assurance 3	N/a

Status	Review Title	Assurance
Not yet due	Redress Scheme Assurance 4	
Planning	Continuous Auditing and Monitoring Phase 2	
Cancelled - Project still open	IICSA Project Closure Assurance 1	
Cancelled - Project still open	IICSA Project Closure Assurance 2	
Not yet started	Subject Access Requests (SARs)	
Deferred – to 2019/20	Recruitment (Recruitment Data)	
Final Issued	Performance Management (deferred from 2017/18)	Reasonable
Deferred - to 2019/20	Equalities (Including Equal Pay Arrangements) (deferred from 2017/18)	
Deferred - to 2019/20	Occupational Health (deferred from 2017/18)	
Deferred - to 2019/20	Disciplinary Processes (New Policy)	
Deferred - to 2019/20	Gifts and Hospitality	
Planning	IR35 Follow Up	
Not yet started	Consultation Processes	
Final Issued	Cyber Security	Advisory
Planning	Software Asset Management	
Fieldwork	Application Audit 1 - Academy	
Fieldwork	Application Audit 4 - AIM	
Fieldwork	Contract Management 1 - Virgin	
Deferred - to 2019/20	Contract Management 2 - Capita	
Planning	Information Governance	
Final issued	Business Continuity (deferred from 2017/18)	Advisory
Fieldwork	Brexit Preparedness	
Cancelled	Management Information and Performance	
Final Issued	Major Capital Projects (deferred from 2017/18)	Limited
Planning	Payroll	
Planning	Digimail	
Neighbourhoods and Growth		
Planning	Homes for Lambeth (deferred from 2017/18)	
Fieldwork	Section 20	
Draft Issued	Out of Hours Emergency Planning – Housing	
Planning	Housing Repairs	
Final Issued	TMO Audit 1 - Blenheim Gardens	Substantial
Final Issued	TMO Audit 2 - CETRA	Substantial
Final Issued	TMO Audit 3 - Holland Rise	Substantial
Fieldwork	TMO Summary Report	
Draft Report	Housing H&S - Follow Up	
Not yet started	London Permit Scheme (deferred from 2017/18)	
Final Issued	Community Safety: Prevent - Management Letter	Advisory
Not yet started	Community Safety: Food Safety	
Draft Report issued	Health and Safety: Parks and Open Spaces	
Service Management		
Draft report issued	Follow up	

Annex 2 - Changes to the Internal Audit Programme

Directorate	Assignment	Change	Reason for change
Corporate Resources	Payroll	Additional	The Council migrated to Oracle Cloud in April of this year. Given the recent upgrade and results of our continuous auditing and monitoring programme over the last few years Internal Audit has begun a cycle of deep dive audits over the key financial systems in the programme. For 2018/2019 this will be Payroll.
Corporate Resources	Digimail	Additional	The Council moved over to Digimail this year representing a change in working practices across the organisation; Internal Audit will review the contract monitoring and performance arrangements over the Digimail contract.
Children's - Schools	Stockwell & Jessops Federation	Additional	Management has requested audit of the schools in this Federation
Children's - Schools	Holy Trinity CE Primary	Additional	This school has been added to the plan as part of our annual risk assessment
Children's - Schools	Heathbrook Primary	Additional	This school has been added to the plan as part of our annual risk assessment
Corporate Resources	VAT	Deferred	HMRC are currently performing a review of the Council's tax arrangements. This audit is currently ongoing; therefore we will defer this audit to 2019/20 and focus our work on any risk areas arising from that work
Corporate Resources	Management Information and Performance	Cancelled	This audit was previously requested by management in 2017/18 and deferred to 2018/19 due to creation of the new Business Intelligence Sub-Group. The quality of management information and performance arrangements are areas that are covered in most internal audit reviews. It has therefore been agreed to place reliance on the results in each audit over this area. We will re-assess the risks around this as part of 2019/20 Internal Audit Planning.
Children's - Schools	Christ Church CE Primary School	Replaced	Replaced with Immanuel and St Andrews CE Primary which was deemed higher risk
Children's - Schools	Elmgreen School	Replaced	Replaced with Elm Wood School, which was deemed higher risk
Corporate Resources	Recruitment	Deferred	The Council has engaged an external consultant to review all employee-related policies and procedures. Given that procedures are likely to change as a result, we will defer detailed audit until 2019/20, when we can review compliance with updated procedures. In the meantime, we will comment on control elements of revised policies and procedures as required.
	Equalities	Deferred	
	Occupational Health	Deferred	
	Disciplinary Processes	Deferred	
	Gifts & Hospitality	Deferred	