

<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>8th November 2018</p> <p>[</p>	 <p>TOWER HAMLETS</p>
<p>Report of: <i>Zena Cooke - Corporate Director - Resources</i></p>	<p>Classification: [Unrestricted or Exempt]</p>
<p><i>Internal Audit and Anti-Fraud Progress Report</i></p>	

<p>Originating Officer(s)</p>	<p>Steve Tinkler</p>
<p>Wards affected</p>	<p>All wards</p>

1. Executive Summary

- 1.1. To provide an update on progress against the delivery of the 2018/19 Annual Audit Plan, highlighting any significant issues since the last report.
- 1.2. To provide an update with regards to the current counter fraud performance and to highlight any new significant corporate fraud related issues since the last report.
- 1.3. Appendix 1 of the report lists all the audits finalised in the period followed by audit summaries of those audits receiving Limited assurance rating.

2. Recommendations

- 2.1. Members are asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

3. Background

- 3.1. Currently we assign each review one of four ratings, depending upon the level of our findings. The ratings we use are: -

Assurance	Definition
Full	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
Substantial	While there is a basically sound system there are weaknesses which put some of the control objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;
Limited	Weakness in the system of controls are such as to put the system objectives at risk or the level of non-compliance puts the system objectives at risk;
Nil	Control is generally weak leaving the system open to significant error or abuse, or significant non-compliance with basic controls leaves the system open to error or abuse.

- 3.2. In addition, each review is also considered in terms of its significance to the authority in line with the previously agreed methodology. The significance of each auditable area is assigned, based on the following factors: -

Significance	Definition
Extensive	High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m.
Moderate	Medium impact, key systems and / or Scale of Service £1m- £5m.
Low	Low impact service area, Scale of Service below £1m.

4. Overview of finalised audits

- 4.1. Since the last Assurance Report that was presented to the Audit Committee in July 2018, 21 final reports have been issued. The findings of these audits are presented as follows:
- Chart 1 below summarises the assurance rating assigned by the level of significance of each report.
 - Appendix 1 provides a list of the audits organised by assurance rating and significance and summaries of audits which were assigned Limited assurance.

4.2. **Members are invited to consider the following:**

- The overall level of assurance provided.
- The findings of individual reports. Members may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.

4.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2005 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

(Please refer to the table on the next page).

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	11	7	-	18
	Moderate	-	3	-	-	3
	Low	-	-	-	-	-
Total Numbers		-	14	7	-	21
Total %		-	66%	34%	-	100%

- 4.4. From the table above it can be seen that of the eighteen finalised audits which focused on high risk or high value areas; eleven were assigned Substantial Assurance and seven were assigned Limited assurance. A further three audits were of moderate significance and were assigned Substantial Assurance.
- 4.5. Overall, 66% of audits resulted in substantial assurance. The remaining 34% of audits have a limited assurance rating.

5. Counter Fraud Update

- 5.1 The Corporate Anti-Fraud Team forms part of the Risk Management Service and consists of the following elements:
- An Intelligence Team that acts as a 'hub' for the service and profiles all allegations of impropriety utilising access to Council systems and outside data sources including credit reference agencies.
 - Social Housing Investigations dealing with allegations of social housing tenancy abuse including subletting and abandonment and also work closely with the Right to Buy Team of Tower Hamlets Homes and the Councils Legal Service to identify fraudulent applications.

- Corporate Investigations Team, dealing with internal matters, relating to staff irregularities or potential misuse of council services/ assets. Part of their work is to assist in improving systems and controls compromised by abuse and to assist the Audit and Risk Management functions in the identification of areas of identified risk. There is also a commitment to develop training and awareness within the Council.
- Blue Badge Investigations which is a predominantly mobile resource identifying blue badge and other fraudulent misuse of parking in the borough. The team work to an agreed Service Level Agreement with the Parking Service.
- There is a separate Insurance Team which examines the integrity of insurance claims to eliminate fraudulent submissions and repudiate inappropriate claims.
- In addition to investigating referred cases the Team also undertakes various proactive exercises and also takes part in the National Fraud Initiative, a bi-annual proactive data matching exercise run by the Cabinet Office, in which each local authority participates.

5.2 Summary of Caseload / Referrals

Current caseloads and outcomes for the period 01/04/18 – 30/09/18 for the counter fraud teams are as summarised below:

Social Housing Fraud

Referrals Received	Referrals Investigated	Properties Recovered	Right to Buy Applications Stopped	Other Outcomes Achieved*
164	107	29	7	16*

* Includes prevention of fraudulent housing applications, obtaining Profit Orders, criminal convictions, stopping fraudulent parking permits and identifying Benefit and Council Tax Reduction irregularities.

Corporate Investigations

Referrals Received	Referrals Investigated	Number of Investigations Concluded	Investigations Ongoing
14	13	4	9

Blue Badge Parking Investigations

No. of Vehicles Checked	28,026
Parking Control Notices Issued	16
Badges Inspected	85

Badges Seized	62
Cautions Given	5
Verbal Warnings Issued	28
Resident Permits Cancelled	37

Insurance Team Caseload

Claims Received	124
Total Value of Claims	£657k
Claims Repudiated	41
Claims Withdrawn	3

5.3 Proactive Counter-Fraud Activities

In addition to the reactive investigatory activities outlined above, a number of proactive counter fraud initiatives have also been conducted to promote the counter fraud culture within the Council. Specifically relating to the following:

- The Social Housing Investigations Team carried out a tenancy audit targeting an identified high risk group of 37 tenancies to establish residency in each case. This project was carried out in collaboration with Tower Hamlets Homes. Nine investigations are currently ongoing as a result of this exercise.
- The Social Housing Investigations Team also recently set up a joint working outreach programme with the THH Caretaking Teams which facilitates speedy referral of suspected sublet cases to the Team
- An extensive programme of Fraud Awareness sessions has been rolled out throughout the management meeting forums and internal departments. This exercise is continuing, in order to raise the profile of the team and encourage staff and managers to engage with the team.

6. Comments of the Chief Finance Officer

- 6.1. This is a noting report covering the period April 2018 to August 2018 highlighting findings arising from the work of the internal audit. There are no specific financial implications arising from the contents of this report.

7. Legal Comments

- 7.1. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 7.2. Pursuant to Regulation 3 of the Accounts and Audit Regulations 2015 ('the 2015 Regulations'), the Council is required to ensure that it has a sound system of internal control that facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.
- 7.3 The Council is also required by Regulation 5(1) of the 2015 Regulations to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 7.4 Quarterly Assurance Reporting from Internal Audit is an integral part of ensuring compliance with these duties.

8. One Tower Hamlets

- 8.1. There are no specific one Tower Hamlets considerations.
- 8.2. There are no specific Anti-Poverty issues arising from this report

9. Best Value Implications

- 9.1 This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

10. Risk Management Implications

- 10.1 This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

11. Sustainable Action for a Greener Environment (SAGE)

11.1 There are no specific SAGE implications.

12. Crime and Disorder Reduction Implications

12.1 By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED	Extensive	Corporate	Attendance Management
	Extensive	Corporate	Staff Declaration of Interests – Follow Up audit
	Extensive	Corporate	Disclosure and Barring Service (DBS) – Follow Up Audit
	Extensive	Health, Adults and Community	Management of Care Plans for Vulnerable Adults
	Extensive	Health, Adults and Community	Contract monitoring of Domiciliary Care Contracts
	Extensive	Place	Monitoring of Waste Collection and Cleansing Contract
	Extensive	Resources	Creditors Systems Audit
SUBSTANTIAL			
	Extensive	Corporate	Honoraria and Acting Up Payments – Follow Up
	Extensive	Resources	Programme and Project Management - Follow Up
	Extensive	Resources	General Ledger Systems Audit
	Extensive	Resources	NNDR Systems Audits
	Extensive	Resources	Council Tax Systems Audit
	Extensive	Resources	Payroll Systems Audit
	Extensive	Resources	Sundry Debtors Systems Audit
	Extensive	Resources	Housing Rents Systems Audit
	Extensive	Resources	Revenue and Capital Budgetary Control
	Extensive	Place	Lettings Follow Up audit
	Extensive	Tower Hamlets Homes	Financial Systems
	Moderate	Place	Tendering for Waste Contracts – Follow Up Audit
	Moderate	Children’s Services	Tendering for Ice Cream Pitches – Follow Up audit
	Moderate	Tower Hamlets Homes	Starters and Leavers – Follow Up audit

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Attendance Management including Annual Leave</p> <p>Corporate report</p>	<p>May 2018</p>	<p>The objective of this audit was to provide assurance over management, control and monitoring of staff attendance and annual leave. We tested a total of 835 attendance records for period January to June 2017 across all five Directorates. The following issues were reported:-</p> <ul style="list-style-type: none"> • Our testing identified 34 instances across all Directorates where discrepancies were highlighted between annual leave recorded on flexi-records and annual leave booked on HR Self Service portal. This was caused by a failure of line managers to consistently complete appropriate reconciliations between the manual flexi-time records and the portal. • Attendance was recorded on a flexi-time sheet for officers grade PO6 and below. However, with the exception of the Governance Directorate, no system was in place for officers graded above PO6 to record their daily attendance including sickness, leave and other absences. • For officers graded PO6 and below, 55% of the flexi-records tested had not been signed by officers as true and correct record of hours worked. In 60% of cases, the flexi-records had not been certified by the relevant managers, as required by procedures. In addition, there were a number of other non-compliance issues with the flexi-time scheme such as carrying forward more than 10 hours of credit and debit, taking more than 2 days of flexi-leave in one calendar month and booking 7 hours credit when on unpaid leave. <p>All findings and recommendations were agreed with individual Divisional Directors and Head of HR and final report issued to Corporate Directors and Chief Executive.</p>	<p>Moderate</p>	<p>Limited</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Staff Declaration of Interests Follow Up audit	Sept. 2018	<p>This audit assessed the progress made in implementing the recommendations agreed at the conclusion of the original audit in August 2017. The Follow Up audit was undertaken during the period April to June 2018. Our testing showed that of the nineteen high priority recommendations, four had been implemented. The remaining fourteen high priority recommendations had not been fully implemented and embedded. Hence the overall control environment has not improved since the last audit. The following issues were reported:-</p> <ul style="list-style-type: none"> • Staff Declaration of Interest (DOI) policy and procedure was still under review and the work was expected to be finalised and signed-off when the newly appointed Divisional Director of HR has taken up the post. • Subsequent to reminders being sent out by HR, as at 14th August 2018, 83% of staff members had completed DOI forms which were then approved by line managers. This compares with 99.98% return rate in August 2017. • Testing of DOI completed by CLT and DLT members identified that authorisation in HR Self Service was outstanding for three CLT members and two DLT members. • Sample testing of 10 DOIs completed by consultants and agency staff identified that of the 6 forms made available to internal audit for testing, only 2 had been completed at the time of audit and none of these had been approved and risk assessed by the relevant line manager. • Staff awareness, induction and training sessions have yet to be arranged by HR to ensure to ensure that all staff are fully aware of the Council's procedures and policy on Declaration of Interests. <p>All findings and recommendations were agreed with the Head of HR and the final report was issued to the Chief Executive and all Corporate Directors.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Disclosure and Barring Service (DBS) 2 nd Follow Up Audit	Oct. 2018	<p>This second follow up audit carried out in July 2018 assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit in January 2017 and the first follow up in March 2018. Our testing showed that of the four high priority recommendations made in the March 2018 Follow-up Report, none of the recommendations had been fully embedded to improve the control environment. The following weaknesses were highlighted :-</p> <ul style="list-style-type: none"> • The Employee’s Code of Conduct document and the Guide for Managers of Posts Requiring DBS Disclosures have not been reviewed since June 2015 and a number of revised policies and forms are not subject to version and date control. • Audit testing of a sample of 6 DBS risk assessments showed that HR notification to carry our risk assessment was issued to the Line Manager between 1 to 17 working days after the disclosure was received by HR. Current DBS policy requires notification to line manager by HR on the same day. • 2 of the 6 risks assessments had not been reviewed and signed-off by the Senior HR Business Partner as required by procedures. • The Corporate Safeguarding Board was advised on the 18th January 2018 that based on the sample testing carried out by HR , not all risk assessments were being completed promptly in accordance with DBS policy. <p>All findings and recommendations were agreed with the Head of HR and the final report was sent to the Chief Executive and all corporate Directors.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Care Plans for Vulnerable Adults	April 2018	<p>The objective of this audit was to provide assurance that systems for preparing, delivering and funding care and support plans for vulnerable adults were sound and secure. The following main issues were raised:</p> <ul style="list-style-type: none"> • Testing of 20 care plans identified that for three cases that reassessments of existing care were outstanding for more than 3 months and reviews of the support plans were outstanding for more than 12 months in ten other cases. • For 2 out of 20 care plans related to mental health cases managed by the Mental Health Trust teams. Documents evidencing eligibility, funding, assessments and care plans were not uploaded on the Framework –i (FWi) case system. To address this control weakness, we recommended that a monitoring system should be introduced to ensure that all documentary evidence confirming eligibility, assessment, review and budget contribution is uploaded on FWi system promptly. • The Care Act 2014 requires that service users' views, wishes, feelings and beliefs should inform their care and support plan. Our testing of 20 care packages showed that in 3 out of 15 relevant cases, there was no evidence that the service user had been involved in the assessment of their needs or their care planning. <p>All findings and recommendations were agreed with the Interim Divisional Director Adult Services and final report was issued to the Corporate Director - Health, Adults and Community.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Contract Monitoring of Domiciliary Care Contracts	Sept. 2018	<p>This audit sought to provide assurance that controls for monitoring of Domiciliary Care Contracts were sound and secure. The Council procured a range of domiciliary care contracts in February 2017. The total spend for the 5 year contract was estimated at £108M. The following issues were reported:-</p> <ul style="list-style-type: none"> • The contract specification required procedures to be set up for an effective monitoring of the contracts. However, these procedures were not clearly documented. Moreover, there was no defined system for management review and quality checks of the monitoring visits and monitoring reports produced by the contract monitoring officers. • Officers carried out monitoring visits to providers. An examination of monitoring visit records identified that suppliers' compliance with Ethical Care Charter requirements such as London Living Wage payment, travel time, transport costs, training and statutory sick pay, was not evidenced for monitoring purposes. • Contracts had not been set up appropriately at the contract set-up stage to ensure that key information such as insurances, licences and financial checks on providers were in place. • Contract specification requires a contract review to be triggered and an action plan to be put in place when the provider's CQC rating does not meet the required standard over a period of time. However, there was lack of evidence to show that an agreed action plan was put in place and that the supplier was monitored effectively to mitigate the risk exposure to the Council. <p>All findings and recommendations were agreed with the Programme Director and the final report was issued to the Corporate Director - Health, Adults and Community.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Monitoring of Waste Collection and Street Cleansing Contract	May 2018	<p>The objective of this audit was to provide assurance over effective monitoring of the waste collection contract, which commenced in February 2006. The contract expired on 31 March 2017 and was extended to 31 March 2020. For 2017/18, it was estimated that payments of £5,412,643 would be made for Refuse Collection and £7,275,588 for Street Cleansing. An additional funding of approximately £750K was provided for street cleansing as part of the Mayor's fund for a cleaner borough for 2017/18.</p> <p>From our testing, we have reported the following key control weaknesses:-</p> <ul style="list-style-type: none"> • The Council's Waste Management Strategy has not been revised since 2003 to reflect the current objectives and priorities of the Council. There had been two unsuccessful attempts since 2006 to develop a new Waste Strategy for adoption. • Some key decisions regarding the contract were made by Senior Officers over a period of time. Clear records of these decisions had not been formally transferred to operational staff responsible for contract monitoring. Therefore, Internal Audit could not examine these key decisions, some of which had on-going financial effects on the value of the contract. • In addition and as a result of a number of restructures effectively the team, key officers with knowledge and responsibility for monitoring the contract either left or transferred to other areas of the organisation. The absence of comprehensive handover procedures, unclear definition of roles and lack of authority to make key decisions has weakened the effectiveness of contract monitoring processes. • Current monitoring staff were not fully aware of detailed contract conditions including the requirement to have priced and approved Change Notices, Insurances and Partnership Agreement. Previous Contract Change Notices were dealt with by previous Chief and Senior Officers without referral to 	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Monitoring of Refuse Collection and Street Cleansing Contracts	May 2018	<p>operational contract monitoring officers. In absence of an audit trail on Contract Change Notices, the adequacy and soundness of contract change control and related financial implications could not be assessed.</p> <ul style="list-style-type: none"> • Key contract monitoring requirements including joint inspections of street cleansing and monitoring of the contractor's self-monitoring system were not being performed. • Officers were aware of a number of risks in the delivery of Refuse Collection, Street Cleansing and other waste contracts. However, these risks had not been documented, assessed and mitigated. Hence there was no visibility of these risks to higher level management. • We noted that an Annual Service Review meeting is required between the Chief Officers of the Council and the Director of Veolia to discuss high level contract issues. Our review of minutes of meetings showed that Senior Strategy Meeting between the Divisional Director – Public Realm, Head of Service and Veolia Director was held on 18th October 2016. However, there was no record of such high level contract review meeting taking place in 2017. <p>All findings and recommendations were agreed with the Interim Divisional Director of Public Realm and final report was issued to the Acting Corporate Director of Place.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors Systems Audit	Sept. 2019	<p>The objective of this audit was to ensure that the Council has sound and secure systems for paying its creditors. The following control weaknesses were reported:-</p> <ul style="list-style-type: none"> • Testing of a sample of 20 paid invoices identified that 6 invoices were received before purchase orders were raised. This is a breach of the Council's Financial Regulations and Procurement Procedures which require purchase orders and commitments to be raised before invoices are received for payment. • 6 out of the 20 invoices were not paid by the due date, increasing the risk of the Council incurring financial penalties for late payment. • Testing of supplier set up process identified that in five out of twenty new suppliers adopted on Agresso, the required validation checks had not been fully undertaken to ensure that supplier details were correct and that they had the necessary Public Liability and Professional indemnity insurances in place. • Testing of 10 CHAPS payments highlighted 8 cases where appropriate checks had not been completed as required by Treasury procedures. • 9 out of 12 staff leavers were not removed promptly from the Agresso system. • The Council's Financial Regulations and Instructions were out of date. The section which covered the procedures for ordering and paying for works, goods and supplies, were not aligned with the revised procurement thresholds approved in December 2017. <p>All findings and recommendations were agreed with the Divisional Director of Finance, Procurement and Audit and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Limited

