


Non-Executive Report of the: Audit Committee Thursday, 11 April 2019	
Report of: Corporate Director, Resources	Classification: Open (Unrestricted)
Internal Audit and Anti-Fraud Progress Report	

Originating Officer(s)	Steven Tinkler and Bharat Mehta
Wards affected	(All Wards);

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 to the Audit Committee in January 2019.
- 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.
- 1.4. Appendix 2 of the report lists all the audits which are at Draft report stage and waiting for management responses before they can be finalised.

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 April 2019, 6 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.
 - Appendix 2 provides a list of audits which are at Draft report stage.
- 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	-	4	2	-	6
	Moderate	-	-	-	-	-
	Low	-	-	-	-	-
Total Numbers		-	4	2	-	6
Total %		-	66%	33%	-	100%

4.4. From the table above, it can be seen that of the six finalised audits which focused on high risk or high value areas (Extensive Significance); four were assigned Substantial Assurance and two were assigned Limited assurance.

4.5. Overall, 66% of audits resulted in full and substantial assurance. The remaining 33% of audits have a limited assurance rating.

4.6. Internal Audit has a performance target of 95% of Audit Plan to be completed to at least Draft report stage by 31st March 2019. For 2018/19 financial year, the current Audit Plan has 49 planned systems audits. As at 28th February 2019, 10 of these audits have been deferred due to management request and 39 of these audits are currently being progressed as detailed below:-

Stage of Audit	Number of Audits
Final Reports issued	12
Draft Reports issued	14
Audits at Field work stage	8
Audits at planning stage	5

- 4.7. In addition to the above planned systems audits, Internal Audit has completed a review of the current Whistle Blowing systems and procedures; review of procurement into some specific contracts; SEND Transport Budget Pressure; Troubled Families Grant Certification work; and also participated in a wide range of corporate and service led projects. There are 13 schools audits currently being undertaken by our external partner BDO.
- 4.8. The Committee should also note that PriceWaterhouseCoopers have now completed a one-off review commissioned by the Chief Executive to provide any management lessons to be learned in respect of the recent move of Tower Hamlets Homes to Boatman House.

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 – 30/11/18 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*
348	212	54	12	33*

* 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
22	19	5	9

Blue Badge Parking Investigations

Parking Control Notices Issued	58
Badges Inspected	196
Badges Seized	175
Cautions Given	5
Verbal Warnings Issued	88
Resident Permits Cancelled	60
Vehicles Removed	46

Insurance Team Caseload

Claims Received	215
Total Value of Claims	£2.103M
Claims Repudiated	90
Claims Withdrawn	8

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.

5.4 National Fraud Initiative Update

The above data matching exercise undertaken by the Cabinet Office is run on a bi-annual basis. Data in respect of the 2018 exercise was submitted for matching in October 2018. Matches identified through this initiative are received by the Council on a fluid basis. As at 25th March 2019, a total of 21,275 matches have been received across the various data sets.

Performance to Date:-

Cleared	994
Investigated	203
Recovering	£16K

6. Comments of the Chief Finance Officers

- 6.1. This is a noting report highlighting findings arising from the work of the internal audit service. 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. Regular 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	Resources	Control and Monitoring of Purchase Cards – Follow Up Audit
	Extensive	Children and Culture	Special Education Needs and Disability (SEND) Follow Up Audit
SUBSTANTIAL			
	Extensive	Place	Homelessness Assessment – Follow Up Audit
	Extensive	Adults, Health and Community	Public Health Contract Monitoring
	Extensive	Children and Culture	Mile End Park and Victoria Park Inspections Systems
	Extensive	Place	Recycling of Waste – Contract Monitoring

Limited Assurance Audits

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Purchase Cards Follow Up Audit	Jan. 2019	<p>This audit followed up the agreed recommendations at the conclusion of the original audit in September 2017. A sample of 20 Purchase Card transactions was tested for the period April 2018 to September 2018. The total spend on Purchase Cards for this period was £430,768. This compared with spend of £773,452.93 for the 2017/18. Of the thirteen high priority recommendations followed up, seven had been progressed and six not implemented. Following issues were highlighted :</p> <ul style="list-style-type: none"> • Cardholders were not accounting for VAT correctly. Testing showed that £285.23 in VAT was not claimed on 8 transactions totalling £2709.89, increasing the risk of loss of VAT income to the Council. • Of the total purchase card spend of £430,768 from April to September 2018, some £198,380 (i.e. 42%) of expenditure was not approved. The Council's policy and procedures require all transactions to be approved. The level of unapproved purchase card expenditure increases financial and reputational risk to the Council. • At the time of audit, there was no corporate monitoring and compliance checking of Purchase Cards activities to identify, escalate and correct any non-compliance issues on a continuous basis. • Management reports to monitor purchase card activities were not being produced and circulated to those charged with governance. <p>All findings and recommendations were agreed with the Interim Divisional Director of Finance, Procurement and Audit and Final report was issued to all Corporate Directors.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Special Education Needs and Disability (SEND)</p> <p>Follow Up Audit</p>	<p>Feb. 2019</p>	<p>This audit followed up recommendations made in the original audit of March 2017. We identified that two high priority recommendations agreed in March 2017, had not been implemented due to issues with the migration and testing of the new IT system. Of the four medium priority recommendations agreed, one recommendation had not been implemented and one was partially implemented. The key points emerging from the follow-up audit were as follows:</p> <ul style="list-style-type: none"> • The system for tracking the completion of Education and Health Care Plans (EHCPs) needed to be improved. At the time of this audit only 28% of the EHCP's were completed within the 20 week timeframe. This should be viewed against the National Average of 65%. • Of the 15 SEND cases tested, 12 needed a statutory annual review of EHCPs. However, an annual review was evidenced in 4 cases. The remaining 8 cases (66%) still needed an annual review. The system for monitoring, checking and signing-off annual reviews of EHCPs needed to be improved to ensure that these reviews are undertaken on a timely basis and that all parties are present at the review meetings. • Although key documents, such as the assessments and EHCPs were found on files except in one case, there needed to be a systematic approach to the checking of files to ensure that all the requisite documents had been completed and held. • The system for monitoring performance against key indicators and targets needed to be developed fully. For example, there was no performance target to monitor completion of annual reviews. <p>All findings and recommendations were agreed with the Head of SEND and Final report was issued to the Divisional Director - Education and Partnerships and Corporate Director of Children and Culture.</p>	<p>Extensive</p>	<p>Limited</p>

APPENDIX 2

List of Audits with Draft Reports

Audit Description	Audit Owner	Date of Draft Report
Deprivation of Liberty Safeguards – Systems Audit	Interim Divisional Director, Adults Social Care	22/02/2019
Rapid Response Service Review	Divisional Director, Community Safety	12/03/2019
Management and Control of Markets – Systems Audit	Divisional Director, Public Realm	13/03/2019
Elective Home Education Service – Systems Audit	Divisional Director, Education and Partnerships	21/03/2019
Fire Risk assessment of Council Owned dwellings – Systems Audit	Interim Divisional Director, Strategy Regeneration and Sustainability	21/03/2019
Handy Person’s Service – Systems Audit	Acting Head of Facilities Management	07/03/2019
Pensions Administration and Control - Systems Audit	Interim Divisional Director , Finance, Procurement and Audit	07/03/2019
George Green’s Secondary School	Head Teacher	07/03/2019
Old Church Nursery School	Head teacher	07/03/2019