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| Non-Executive Report of the: Audit Committee Thursday, 14 November 2019 |  TOWER HAMLETS |
| Report of: Neville Murton, Corporate Director, Resources | Classification: Open (Unrestricted) |
| Internal Audit and Anti-Fraud Progress Report | |

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|-------------------------------|--------------|
| Originating Officer(s) | Paul Rock |
| Wards affected | (All Wards); |

Executive Summary

This report provides an update on progress against the delivery of the 2019/20 Annual Internal Audit Plan and highlights any significant issues since the last report to the Audit Committee in July 2019.

The report also provides an update with regards to the current counter fraud performance and to highlight any new significant fraud related issues since the last report.

Recommendations:

The Audit Committee is recommended to:

1. Note the contents of this report and the overall progress and assurance provided, as well as the findings/assurance of individual reports.
2. Note the outcome of the self-assessment against the Public Sector Internal Audit Standards and the associated action plan.
3. Approve the Council's revised and prioritised internal audit plan for 2019/20.

1. REASONS FOR THE DECISIONS

1.1 The Accounts and Audit Regulations 2015 state that a relevant authority must ensure that it has a sound system of internal control which:

- 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.

1.2 The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and control and this report assists the Committee in discharging its responsibilities.

2. ALTERNATIVE OPTIONS

2.1 None.

3. DETAILS OF THE REPORT

Progress against the 2019/20 Internal Audit Plan

3.1 In the last 6 months the service has faced significant resource issues and we recognise this has had an impact on the timely delivery of the plan. We are currently recruiting to vacant posts, have sought additional resources by spot purchasing services from BDO, and have procured a strategic audit partner to co-source the function until 2021. This contract commences on the 15 November 2019 and was awarded to BDO.

3.2 As a result of these challenges we have taken the opportunity to review the internal audit plan in full and further prioritise the remaining audits. The updated plan is shown at Appendix 1. We have prioritised audits as follows:

- Priority one audits are the highest priority and will be the focus of our delivery in the remaining five months.
- Priority two audits are important but lower priority and will be delivered if all priority one audits are delivered. As a result, priority 2 audits have not been assigned an indicative quarter for delivery. Priority 2 audits may be carried forward into the 2020/21 internal audit plan.

3.3 The plan agreed in April 2019 for 2019/20 financial year recorded 58 planned audits (for the Council). As of October 2019, there have been four additions and eight audits have been cancelled or deferred to 2020/21. After prioritisation there are 44 priority 1 and 10 priority 2 audits. Progress against the Council's internal audit plan can be summarised as follows:

Table 1 – Summary of Progress 2019/20 Internal Audit Plan

| Stage of Audit | Number of Audits |
|-----------------------|-------------------------|
| Planning | 4 |
| Fieldwork | 9 |
| Draft report | 5 |
| Final report | 3 |
| Total | 21 |

- 3.4 In addition, the service provides Internal Audit and Anti-Fraud activity to Tower Hamlets Homes. Of the original 8 planned audits for Tower Hamlets Homes, 1 is at planning stage, 1 is in fieldwork and 1 is at draft report stage. Separate reports on progress and outcomes are provided to the Tower Hamlets Homes Finance and Audit Committee.
- 3.5 The revised internal audit plan for the Council for 2019/20 is presented for the Audit Committee's review and approval.

Overview of Finalised Audits

- 3.6 Since the last report that was presented to the Audit Committee in July 2019, six final reports from the 2018/19 and six from 2019/20 internal audit plans have been issued.
- 3.7 Two draft reports from the 2018/19 audit plans are still waiting for management's response to the recommendations (Pensions and Efficiency Savings). We have escalated the lack of response to the Divisional and Corporate Directors.
- 3.8 In summary, since July 2019, one audit has been issued with Nil assurance, five audits have been issued with Limited assurance and five with Substantial Assurance. There was one audit which was undertaken as consultancy and in accordance with our procedures no assurance level was assigned to this audit. Summaries of the key findings and recommendations of all 12 audits are available at Appendix 2.

Nil Assurance

- Guardian Angels Primary School

Limited Assurance

- Client Monitoring of Fire Safety in Residential Dwellings
- Management and Control of Electronic Parking Income
- Request for Quotation (RFQ) System
- Debtors Systems Audit
- Right to Work Compliance

Substantial Assurance

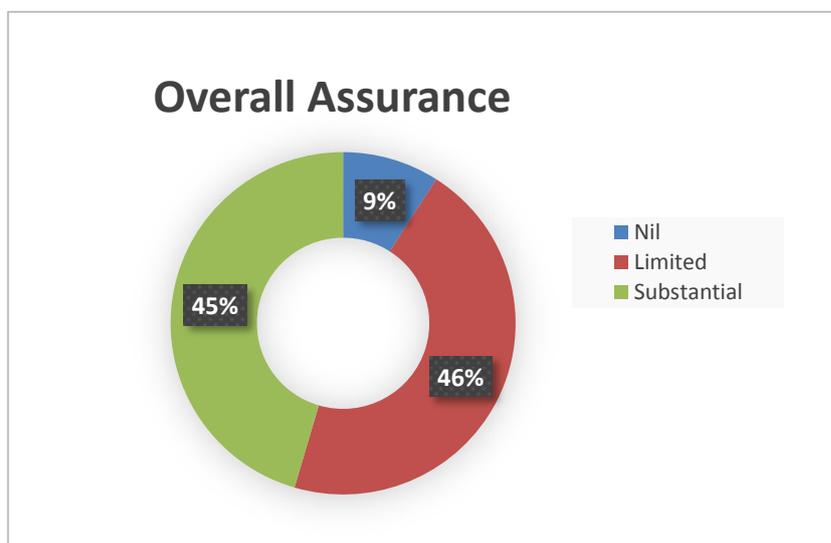
- Outdoor Education Service
- Management of Child Protection Case Conferences Follow Up Audit
- Treasury Management
- Income Maximisation
- Members Training and Induction – Follow Up Audit

Consultancy

- Review of Whistleblowing Systems and Procedures

- 3.9 Overall, the assurance picture to date is 9% of audits providing Nil Assurance, 45% providing Limited Assurance and 46% providing Substantial Assurance to senior management and the Audit Committee.

Chart 1 – Summary Assurance Opinions



Implementation of Agreed Management Actions

- 3.10 In each instance where weaknesses have been identified, Internal Audit has obtained an agreed management action plan to address the weaknesses and improve the risk management, governance and/or controls.
- 3.11 Currently, internal audit follows up high and medium priority recommendations six months after the issue of the final reports to assess the progress made in implementing the agreed actions. An overview of management’s performance is summarised in Table 2 below:

Table 2 – Implementation of Agreed Management Actions for 2018/19 and 2019/20

| | High Priority Recommendations | Medium Priority Recommendations |
|--|--------------------------------------|--|
| Number of Agreed Management Actions | 99 (plus 6 from previous) | 10 |
| Number of Management Actions Implemented | 65 (plus 5) | 6 |
| Number of Management Actions Outstanding | 34 (plus 1) | 4 |
| % Implemented | 66% | 60% |

- 3.12 Management's implementation of agreed actions is poor and there is clear room for improvement. However, some of these recommendations are old, dating back to 2017, and may no longer be relevant. We will be reviewing our approach to making recommendations and monitoring management's implementation.
- 3.13 Whilst over the course of the next three months we will be focussed on delivering the core plan, with management's input we will review outstanding recommendations to ensure they remain relevant and explore more efficient methods of monitoring and reporting results. We will present the outcome of our review and any revisions to our processes at the next Audit Committee meeting.

Public Sector Internal Audit Standards

- 3.14 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to periodically self-assess conformance against the standards and report to the Audit Committee any partial or non-conformance as well as a plan to address any such issues.
- 3.15 A self-assessment has now been completed. In summary, the Internal Audit service is generally conforming with 41 out of 56 standards. Areas of partial or non-conformance include:
- The Audit Charter
 - Managing the risk to Internal Audit's independence
 - Issuing engagement plans for consultancy work
 - Implementation of a Quality Assurance and Improvement Programme
 - Adequacy of resources
 - Coordination with other assurance providers
 - Monitoring and reporting the disposition of audit recommendations.
- 3.16 An action plan has been developed to address the areas of partial/non-conformance (see Appendix 3) and we anticipate we will be generally conforming with the standards by 31 March 2020. Progress against this action plan will be reported to the Committee at its next meeting.
- 3.17 We have assessed that we are fully complying with the Code of Ethics.

Appointment of Independent Expert / Member

- 3.18 In April 2019, the Audit Committee decided that the appointment of an independent expert/member to the audit committee should be pursued. The role was advertised over the course of the Summer with interviews planned in September, unfortunately the number of applicants was limited and we failed to secure a reasonable field of candidates with relevant experience. As a result, we have advertised the role in alternative publications and hope to appoint before the end of the calendar year.

Corporate and Social Housing Fraud

3.19 The Corporate Anti-Fraud Team consists of the following sub teams:

- Intelligence
- Social Housing
- Corporate Investigations
- Blue Badge

3.20 There is also an investigator in the Insurance Service who examines the integrity of insurance claims to eliminate fraudulent submissions and repudiate inappropriate claims.

3.21 In addition to investigating referred cases, the Corporate Anti-Fraud Team also undertakes various proactive exercises and coordinates the Council's participation in the National Fraud Initiative, a biennial proactive data matching exercise run by the Cabinet Office in which each local authority must participate.

Summary of Referrals and Outcomes

3.22 Current caseloads and outcomes for the period between April and June 2019 are as summarised below:

Table 3 - Social Housing Fraud Team, July to September 2019

| No. of Referrals | Closed | Rejected | Ongoing | Properties Recovered | RTB Applications Stopped | Misc. successful outcomes |
|------------------|--------|----------|---------|----------------------|--------------------------|---------------------------|
| 144 | 24 | 38 | 82 | 9 | 4 | 7 |

Table 4 - Corporate Fraud Team, July to September 2019

| No. of referrals | Closed | Rejected | Ongoing |
|------------------|--------|----------|---------|
| 10 | 1 | 0 | 9 |

3.23 Some example case studies have been attached at Appendix 4.

Proactive Anti-Fraud Activity

3.24 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 and lower the risk of fraud.

3.25 The fraud team has undertaken a pro-active exercise examining cases of No Recourse to Public Funds (NRPF). NRPF fraud has been regularly reported an area of significant risk for all local authorities. The work has been well

received and been followed up by providing training to Social Care staff to support them in identifying false documents. A future exercise is planned to support staff to assess and robustly challenge applicants' financial status. In addition, one of our officers now regularly attends and supports the NRPF Panel.

- 3.26 Previously the Committee were informed the team would be launching a 'Key Amnesty' in September 2019. After seeking advice from the Communications Team, we have delayed this campaign to January 2020. The amnesty will be targeted at reducing social housing fraud and include a publicity programme to raise awareness of how the Council has been successful in investigating and where appropriate prosecuting fraud cases. It will provide an ideal opportunity for increased engagement with Tower Hamlets Homes, the borough's Registered Providers and the community. The results of the amnesty will be reported to a future audit committee.
- 3.27 During the last quarter the Planning and Development the team requested some training on anti-bribery and corruption. In response the Corporate Fraud Team has provided numerous sessions to over 100 staff. Feedback for these sessions has been very positive and we hope to encourage more services to engage.
- 3.28 In November 2019 the Corporate Fraud Team will explore launching a campaign to raise awareness of fraud affecting the Council to coincide with International Fraud Awareness Week. The campaign will include social media articles, presentations and, if appropriate, carefully selected promotional merchandise to promote fraud awareness.

National Fraud Initiative 2018/19

- 3.29 The Corporate Anti-Fraud Team coordinates the Council's mandatory participation in the National Fraud Initiative (NFI) which is led by the Cabinet Office. The NFI is a cross-government data matching exercise designed to identify error and fraud. It is important to note that a match on the NFI does not mean that fraud is occurring. It simply means there is a data anomaly that requires further investigation; it may result in data being corrected as well as a more substantial fraud investigation. The following table summarises the activity:

Table 5 - Summary of NFI Matches

| Match type | Total no. of matches | High risk | Medium risk | Matches Resolved |
|-----------------------|-----------------------------|------------------|--------------------|-------------------------|
| Creditors | 14,324 | 0 | 0 | 9,963 |
| Housing Benefit | 3,505 | 16 | 218 | 2,578 |
| Council Tax Reduction | 2,116 | 64 | 23 | 724 |
| Housing Waiting List | 867 | 75 | 700 | 56 |
| Housing Tenants | 1,033 | 309 | 130 | 4 |
| Right to Buy | 213 | 100 | 46 | 79 |
| LBTH Pensions | 201 | 110 | 29 | 164 |

| | | | | |
|---------------------------------------|---------------|------------|--------------|---------------|
| Blue Badge | 210 | 176 | 34 | 206 |
| Procurement/Payroll & Companies House | 64 | 0 | 0 | 64 |
| LBTH Payroll | 153 | 3 | 20 | 125 |
| Resident Parking Permit | 62 | 35 | 24 | 52 |
| Personal Budgets | 27 | 7 | 5 | 8 |
| Private Residential Care Homes | 24 | 6 | 12 | 18 |
| Personal Alcohol Licence | 1 | 0 | 0 | 0 |
| Market Traders | 1 | 0 | 0 | 0 |
| Council Tax SPD | 3,096 | 0 | 0 | 163 |
| Matches total | 25,897 | 901 | 1,241 | 14,204 |

3.30 The results of the NFI exercise (to date) are as follows:

- £4,681 in housing benefit overpayments identified.
- Fourteen Housing Benefit cases have been referred to the Department for Work and Pensions for fraud investigation. These are cases where student status appears not to have been declared on the benefit claims.
- £11,341 has been identified as overpaid LBTH pensions, recovery is being pursued. These cases have occurred where pensioners have died and the authority has not been notified and an overpayment of the pension has occurred.
- 130 blue badges have been recovered or are in the process of being recovered as a result of the exercise. These are cases where the blue badge recipient has died and the badges are still in circulation. The Cabinet Office recommends a notional savings value of £575 per badge.
- Fifty people have been removed from the housing waiting list with an estimated notional total value, as prescribed by the NFI, of £162,000. These are cases where the waiting list applicant has died and the authority has not been notified.
- Council Tax Single Person Discounts have been removed to the value of £104,384.

4. EQUALITIES IMPLICATIONS

4.1 There are no specific statutory implications.

5. OTHER STATUTORY IMPLICATIONS

5.1 Other than the Accounts and Audit Regulations 2015 there are no other statutory implications.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Other than the requirements on the authority and responsible financial officer set out in the Accounts and Audit Regulations 2015, there are no significant financial implications.

7. COMMENTS OF LEGAL SERVICES

7.1. The Council has a legal duty to ensure that it has a sound system of internal control that facilitates the effective exercise of its functions. The Council must also ensure that its financial and operational management is effective including arrangements for the management of risk.

7.2. The Council is also required under the law to undertake internal audits to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

7.3. The evidence detailed in this report shows compliance with these legal duties

7.4. Also, the submission of a revised audit plan for the remainder of the 2019 / 20 auditing period to take into account resources and current auditing priorities demonstrates compliance with the legal duties referred to in paragraphs 7.1. and 7.2

7.5. The submission of the revised Audit plan also demonstrates:

- a. That the council is taking action to respond to current requirements that another reasonable authority would take in the circumstances and
- b. The council is continually improving the way in which it delivers its services in terms of economy efficiency and effectiveness

7.6. There are no immediate legal equalities implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 Updated Internal Audit Plan for 2019/20
- Appendix 2 Finalised Audits and Audit Summaries
- Appendix 3 Action Plan for Public Sector Internal Audit Standards
- Appendix 4 Case Studies

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- NONE

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