


Non-Executive Report of the:  <b>Audit Committee</b>  Tuesday, 23 July 2019	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Corporate Director, Resources	<b>Classification:</b> Open (Unrestricted)
<b>Internal Audit and Counter Fraud Progress Report</b>	

<b>Originating Officer(s)</b>	Paul Rock
<b>Wards affected</b>	(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 April 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.

Appendix 1 lists all the audits finalised in the period April to June 2019 followed by summaries of the reports.

## 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.

## 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 internal control and this report assists the Committee in discharging its responsibilities.

## 2. ALTERNATIVE OPTIONS

2.1 None.

## 3. DETAILS OF THE REPORT

### Background

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

<b>Assurance</b>	<b>Definition</b>
<b>Full</b>	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied.
<b>Substantial</b>	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.
<b>Limited</b>	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.
<b>Nil</b>	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 based on the following factors:

<b>Significance</b>	<b>Definition</b>
<b>Extensive</b>	High risk, high impact area including fundamental financial systems, major service activity, scale of service in excess of £5m.
<b>Moderate</b>	Medium impact, key systems and / or scale of service £1m - £5m.
<b>Low</b>	Low impact service area, scale of service below £1m.

## Overview of finalised audits

3.3 Since the last report that was presented to the Audit Committee in April 2019, eight final reports from the 2018/19 internal audit plan 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 the audit reports.

3.4 The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will support Internal Audit's overall assessment of the adequacy of governance, risk and internal control arrangements that are required as part of the Accounts and Audit Regulations 2015 and the 2017 Public Sector Internal Audit Standards.

**Chart 1: Analysis of Assurance Levels**

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	3	3	-	6
	Moderate	-	1	1	-	2
	Low	-	-	-	-	-
<b>Total Numbers</b>		-	4	4	-	8
<b>Total %</b>		-	50%	50%	-	100%

3.5 In summary, of the six finalised audits which focused on high risk or high value areas (Extensive Significance) three were assigned substantial assurance and three were assigned limited assurance. Of the two finalised

audits which focused on medium risk or medium value areas (Moderate Significance) one was assigned substantial assurance and the other received limited assurance.

- 3.6 Overall, 50% of audits resulted in substantial assurance. The remaining 50% of audits have a limited assurance rating.
- 3.7 Internal Audit has a performance target of 95% of audit plan to be completed to at least draft report stage by 31 March 2020. For 2019/20 financial year, the current Internal Audit plan has 69 planned systems audits. As at 30 June 2019, 3 of these audits have been deferred due to management requests. Of the 66 audits currently on the plan, 14 of these audits are being progressed as detailed below:

<b>Stage of Audit</b>	<b>Number of Audits</b>
Planning	8
Fieldwork	6
Draft report	0
Final report	0

### **2019/20 Internal Audit Plan**

- 3.8 At present, Internal Audit is effectively carrying three vacancies and there is no third-party audit provider in place to supplement delivery. As a result, the Internal Audit team is under significant pressure and working extremely hard to meet its delivery targets, but there is a risk that the annual internal audit plan will not be delivered. As a matter of urgency we will be recruiting to the vacant posts and beginning procurement for a strategic audit partner to provide both specialist IT audit services and supplement the main internal audit plan. As a short-term measure will be exploring a one-of purchase from existing audit service frameworks available to London local authorities. Any significant amendments to the internal audit plan will be reported to management and the Audit Committee.

### **Independence of the Head of Internal Audit**

- 3.9 The Public Sector Internal Audit Standards and the Local Government Application Note issued by the Chartered Institute of Public Finance and Accountancy requires the Head of Internal Audit to report any actual, potential or perceived impairments to organisational independence. Any such impairments must have additional safeguards in place.
- 3.10 The Audit Committee is aware that the Head of Internal Audit is also responsible for the risk management, anti-fraud and insurance functions. As this creates at least a potential impairment to organisational independence additional safeguards will be put in place.
- 3.11 To safeguard independence the Head of Internal Audit will seek alternative arrangements for assurance. During 2019/20 these functions will be audited independently by either a peer or external provider. The audits will be

sponsored by the Divisional Director for Finance, Procurement and Audit and both the Divisional Director and the Audit Committee will receive the reports. This arrangement will support the Audit Committee in discharging its responsibility for oversight of Internal Audit and in particular its organisational independence.

### **Appointment of Independent Expert / Member**

3.12 In April 2019, the Audit Committee decided that the appointment of an independent expert/member to the audit committee should be pursued. On appointment, the new Head of Internal Audit has been tasked with progressing this appointment and a job description and person specification is being developed. The appointment process will be discussed and agreed with the Chair of the Audit Committee and it is anticipated that the expert will join the Committee before the next formal meeting.

### **Counter Fraud**

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

- Intelligence
- Social Housing
- Corporate Investigations
- Blue Badge

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

3.15 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 Caseload / Referrals**

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

#### Social Housing Fraud Investigations

Referrals Received	Referrals Investigated	Properties Recovered	Right to Buy Applications Stopped	Other Outcomes Achieved*
85	64	5	1	4*

### Corporate Investigations

Referrals Received	Referrals Investigated	Number of Investigations Concluded	Investigations Ongoing
7	4	1	2

### Blue Badge and Parking Investigations

Parking Control Notices Issued	11
Badges Inspected	49
Badges Seized	71
Cautions Given	2
Verbal Warnings Issued	20
Resident Permits Cancelled	1
Vehicles Removed	5

### Insurance Team Caseload

Claims Received	60
Total Value of Claims	£546,367
Claims Repudiated	22
Claims Withdrawn	0

### **Proactive Counter Fraud Activities**

- 3.17 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
- 3.18 The Social Housing Investigations Team continue to work jointly with the THH Caretaking Teams which facilitates speedy referral of suspected sublet cases.
- 3.19 To assist with the embedding the counter fraud culture, the team has developed, in partnership with a leading training provider, a bespoke e-learning product which will develop and enhance awareness of fraud risk across the Council.
- 3.20 The fraud team has begun planning 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 team will be reviewing the processes for assessing applications and commentating on risk exposure as well as the effectiveness of controls.
- 3.21 By September 2019 the team will be launching a 'Key Amnesty'. 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.

- 3.22 The Council has engaged with a CIPFA sponsored anti-fraud initiative known as the London Counter Fraud Hub. The Hub seeks to examine and match data across a wide range of areas and authorities to identify fraud and error. This Hub is likely to yield rewards based on pilot studies and will consider Housing, Council Tax and National Non Domestic Rating initially, but will extend into other areas of Local Authority activity following risk assessments and agreed working approaches.

#### **4. EQUALITIES IMPLICATIONS**

- 4.1 There are no specific statutory implications.

#### **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 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 This report is compliant with the Council's legal duties in respect of risk and auditing. It also demonstrates compliance with the Corporate Director Resources' statutory duties under s.151 of the Local Government Act 1972

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- None.

#### **Appendices**

- Appendix 1 – summary of finalised internal audit reports.

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

##### **List of "Background Papers" used in the preparation of this report**

List any background documents not already in the public domain including officer contact information.

- None.

**Officer contact details for documents:**

Paul Rock, Head of Internal Audit, Fraud and Risk  
[paul.rock@towerhamlets.gov.uk](mailto:paul.rock@towerhamlets.gov.uk)