

Non-Executive Report of the: Audit Committee Thursday, 28 January 2021	 TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director, Resources	Classification: Open (Unrestricted)
Internal Audit and Anti-Fraud Progress Report	

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 and 2020/21 Annual Internal Audit Plan and highlights any significant issues since the last report to the Audit Committee in November 2020. An update on anti-fraud activity is also included.

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. **Approve** the Council's Whistleblowing Policy and the Anti-Fraud and Corruption Strategy.

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 and Finalisation of the 2019/20 Internal Audit Plan

3.1 Since the last Audit Committee in November 2020 we have been working with management to finalise the remaining audits from the 2019/20 Internal Audit plan. The following audits have been finalised and may be used to inform the 2020/21 annual Head of Internal Audit opinion; summaries of these audits are included at Appendix A:

Reasonable / Substantial

- Stepney Greencoat Primary School

Limited

- Corporate Governance
- Bowden House Special School
- St John's Primary School
- Deputyships and Appointeeships

Progress against 2020/21 Internal Audit Plan

3.2 Since the last Audit Committee in July 2020 when the 2020/21 Annual Internal Audit Plan was agreed the following progress has been made:

Audits at Planning Stage (Research)

- Child Exploitation Service and Contracts

Engagement Plans Issued to Management

- Contract Monitoring of Grouped Schools PFI Contract
- Election Spending

Audits in Progress (Fieldwork)

- Supporting Stronger Families – Grant Claim Certification
- Discretionary Housing Payments
- Place Directorate Governance
- Ethical Culture
- Planning and Capital Projects Community Infrastructure Levy (CIL) Collection and Utilisation
- Asset Management
- Management of Complaints
- Payroll
- NNDR

- Drugs and Alcohol Services – Contract Monitoring
- Overview and Scrutiny functions
- Contract Monitoring of Children’s Commissioned Services
- Staff Declaration of Interests
- Delivery of Efficiency Savings
- Emergency Hardship Payments (Resident Support Scheme)
- Treasury Management
- Private Sector Compliance with Fire Risk Assessments
- Debtors and Income Recovery

Draft Reports

- Local Community Fund (First issued 16/06/20, amended drafts issued 21/10/20 & 5/1/2021)
- Housing Allocations and Lettings (First issued 13/10/2020)
- Pension Administration (First issued 29/10/20)
- General Ledger (First Issued 18/11/2020)
- New Town Hall – Contract Audit (First 8/01/2021)
- IT Remote Working (Issued week commencing 25/1/2021)

Final Reports

- PCI and DSS Governance (IT Audit) – Limited Assurance.
- Payment Controls for Temporary Accommodation – Reasonable Assurance
- Cyber and Network Security (IT Audit) – Limited Assurance

3.3 Summaries of the finalised audits are included at Appendix A.

Annual Internal Audit Opinion

3.4 In accordance with the Public Sector Internal Audit Standards the Head of Internal Audit is required to give an overall opinion on the governance, risk management and internal control environment of the Council. This opinion is mainly, although not exclusively, based on the outcomes of internal audit’s activity. If asked to provide an opinion today the balance of work would suggest that a Limited assurance opinion would be warranted.

Table 1 – Final Audit Opinions Issued in 2020/21

Reasonable Assurance	Limited Assurance
DSP Tool Kit	IR35 Off Payroll Engagements
Payment Controls for Temporary Accommodation	Back up Schedules and Protection (IT Audit)
Creditors	Control and Monitoring of Parking Permits
	Acquisition of Properties for Temporary Accommodation
	Capital Programme Governance

	Financial Assessments of Contributions to Social Care
	PCI DSS Governance
	Corporate Governance
	Cyber and Network Security (IT Audit)
	Deputyships and Appointeeships

Implementation of Agreed Management Actions

- 3.5 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.
- 3.6 Historically, internal audit has followed 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. We reviewed our approach to following up management actions and reporting progress to the Audit Committee and implemented the new process from May 2020.
- 3.7 During the period May 2020 to December 2020, eight follow up audits were undertaken to assess the progress in implementing the agreed actions and recommendations. The following Table gives an analysis of the progress in the implementation of agreed management actions.

Table 2 – Implementation of Agreed Management Actions

	High Priority	Medium Priority
Number of Agreed Management Actions Followed Up	56	22
Number of Management Actions Fully Implemented	42	9
Number of Management Actions Partially Implemented	14	10
Number of Management Actions Not Implemented	0	3
% Fully Implemented	75%	41%
% Partially Implemented	25%	45%
% Not Implemented	-	14%

- 3.8 It is pleasing to report that 100% of high priority actions have either been fully implemented or partially implemented, with only 3 medium priority recommendations that have not been implemented. This is a positive response from management.

Public Sector Internal Audit Standards

- 3.9 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.
- 3.10 The Committee were previously advised of the self-assessment for 2019/20 and the resulting action plan to address the areas of partial/non-compliance. Progress against this action plan is summarised in Appendix B; all actions are now complete. Actions that have previously been reported to the Committee as completed have been removed from the update.

Internal Audit Perception Survey

- 3.11 To further improve the internal audit service, we have sought the views of management across the Council through a short perception survey. Recipients were asked to grade internal (4-point scale, strongly disagree to strongly agree) on the following statements:
1. I understand the role and importance of Internal Audit and how it helps the Council accomplish its objectives?
 2. Internal Audit activity is aligned with the strategies, objectives and risks of the Council?
 3. Internal Audit consistently demonstrates competence and due professional care?
 4. Internal Audit is objective and independent?
 5. Internal Audit adds value with the work they deliver?
 6. Internal Audit is insightful, proactive and future focussed?
 7. Internal Audit promotes and supports organisational improvement and transformation?
 8. Internal Audit provides accurate, objective, clear, concise, constructive, complete and timely reports that meet your needs?
 9. Internal Audit consistently demonstrates integrity?
 10. Internal Audit enables the sharing of good practice and experience across the Council?
 11. Internal Audit demonstrates quality and continuous improvement in internal audit practice?
 12. Internal Audit has provided an effective service for the Council in the last 12 months?
- 3.12 There were 35 responses in total. The results are detailed in Appendix C. We are pleased to report the following:

- 80% or more of respondents 'strongly agreed' or 'agreed' with statements 1, 2, 3, 4, 5, 7 & 9.
- 74% to 77% of respondents 'strongly agreed' or 'agreed' with statements 6, 8, 11 and 12; around 20% of respondents disagreed with these statements or did not respond.
- The lowest percentage of 'strongly agreed' and 'agreed' was for statement 10 which scored 63%, 34% disagreed and 3% did not respond.

3.13 Some respondents added additional comments, a sample is below:

- It would be good to understand how internal audit makes decisions about what areas require audit and what is being planned for this year and the following year.
- I think it will be useful for all staff within the Council to undertake some form of awareness training to understand the importance of internal audit and why this is required. I do feel that staff, especially those that are a frontline, do not always understand this or the importance of internal audit.
- They have always provided good support and advice when asked for and conducted all audits I have been involved in with professionalism and by working with me.
- One of the audits that was completed last year showed a complete lack of understanding of the staff group we employ. I don't know what added value this provides to the Council.
- Our current audit reports could be smarter and easier to follow as some actions/findings historically have overlapped and have been almost been there for the sake of it, rather than making a real difference.
- Internal Audit is integral to assisting delivery of services in an efficient and compliant manner, although many managers may not know their specific function.

3.14 Whilst most responses were positive there remains room for improvement. In 2021/2022 we will seek to improve how insightful, future focused and proactive we are, our reporting, how we share good practice and our Quality Assurance and Improve Programme. We will also deliver a series of workshops and update our Intranet content to better explain the role of Internal Audit and how we support the organisation in achieving its objectives. Further details will be provided when we review our audit strategy and plan our audit activity for the coming financial year.

3.15 This is the first time such a survey has been undertaken and we will repeat this survey each year to measure our performance and progress and report the results to the Corporate Leadership Team and the Audit Committee.

Corporate and Social Housing Fraud

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

- Intelligence
- Social Housing
- Corporate Investigations
- Blue Badge

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

3.18 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.

3.19 The various fraud teams continue to diligently investigate allegations of fraud as and when they arise. In line with the Council's strategy during the pandemic, only essential services were in operation and key workers deployed and to minimise the risk to the investigators and the public, interviews, foot patrols and visiting were stopped, although desktop investigations have continued throughout. In October 2020 we received confirmation that our service risk assessment had been agreed in line with the Council's recovery and reconstitution process, and with the appropriate safety measures in place some visiting and interviews have recommenced, however these have since halted with the reintroduction of restrictions. It's likely we will see a reduction in outcomes over the coming months until the backlog of investigation and Court work is cleared. The Courts are currently adjourning most cases whilst they clear their own backlog. Most Court cases are being relisted for hearings in 2021 and 2022.

Summary of Referrals and Outcomes for 2020/21

3.20 A summary of referrals and outcomes for 2020/21 is show below:

Table 3 - Corporate Fraud Team, October 2020 to December 2020

No. of referrals	Closed	Rejected	Ongoing
9	0	2	7

Table 4 - Social Housing Fraud Team, October 2020 to December 2020

No. of Referrals	Closed	Rejected	Ongoing	Properties Recovered	RTB Applications Stopped	Misc. successful outcomes
57	11	18	28	7	2	0

Table 5 - Insurance Investigator Caseload 2020/21

Total No. of claims received:	114
No. of claims investigated:	41
Total value of claims investigated:	£1,468,052
No. of claims repudiated as a result of investigation:	16
No. of claims withdrawn during investigation:	0
Total value of claims repudiated or withdrawn (above):	£142,056

3.21 In addition, a further 25 claims with a reserve value of £1.3m remain under investigation.

Proactive Anti-Fraud Activity

3.22 In order to regain ground lost to the impact of the of the pandemic we have been undertaking a validation exercise with the Blue Badge Digital Service to recover badges where the Badge Holder has passed away and the relatives have not returned the badge for cancelation. It is not uncommon for these badges to be sold and/or misused. In addition to recovering these badge the exercise will ensure that more parking is available for genuine Blue Badge holders. To date this exercise has identified 196 Blue Badges and we are in the processes of recovering them.

3.23 In addition to the Blue Badge exercise we are participating in a Transliteration pilot with the Cabinet Office which targets multiple identify fraud by using data we have already submitted via the National Fraud Initiative. There are over 5 million individuals in the UK who have the ability to use two or more genuine forms of ID, with undetectable and unlinked iterations of their names. This allows them to commit undetected application fraud evidenced with genuine documentation, by generating multiple applications with multiple names for the same services. Additionally, it allows couples to use different surnames to perpetrate Undeclared Partner Fraud. We anticipate receiving the results of this pilot exercise in January and will report our progress in April 2021.

Whistleblowing Policy and the Anti-Fraud and Corruption Strategy

3.24 The Whistleblowing Policy and Anti-Fraud and Corruption Strategy are reviewed annually to ensure they remain up to date and fit for purpose. Both the policy and the strategy have been reviewed and are presented to the Audit Committee for approval; both documents have only required minor updates and are attached at Appendix D and E respectively.

4. EQUALITIES IMPLICATIONS

4.1 There are no equalities implications.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 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 A local authority is required by the Accounts and Audit Regulations 2015 to have a sound system of internal control, which facilitates the effective exercise of its functions, ensure that the financial and operational management of the authority is effective, and includes effective arrangements for the management of risk. In addition, section 151 of the Local Government Act 1972 requires a local authority to make arrangement for the proper administration of their financial affairs. This report demonstrates the Council's compliance with the above requirements.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix A – Summary of Finalised Audits
- Appendix B – PSIAS Action Plan
- Appendix C – Internal Audit Perception Survey Results
- Appendix D – Whistleblowing Policy
- Appendix E – Anti-Fraud and Corruption Strategy

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:

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