

Non-Executive Report of the: Audit Committee Wednesday, 1 December 2021	 TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director, Resources (S.151 Officer)	Classification: Open (Unrestricted)
Internal Audit Progress Report	

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

Reason for Urgency

Clearances for this report were received later than anticipated which resulted in the publishing deadline being missed. It is vital that the Audit Committee receive regular reports from internal audit on progress and outcomes of the audit and anti-fraud activity.

Executive Summary

This report provides an update on progress against the delivery of the 2021/2022 Annual Internal Audit Plan and highlights any significant issues since the last report to the Audit Committee in October 2021. In addition, an update on anti-fraud work is 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 updated annual internal audit plan for 2021/2022.

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**

Internal Audit

- 3.1 The Council's internal audit service is provided by three senior internal auditors and led by an experienced audit manager who is also the Deputy Head of Internal Audit. The service currently has three additional vacancies that we are currently recruiting to which includes a new apprenticeship post. Delivery of the plan is supplemented through a contract with BDO – a professional services and accountancy firm. The Audit Committee is provided with updates at each meeting on progress against the Annual Internal Audit Plan.
- 3.2 In addition, we also deliver internal audit services to Tower Hamlets Homes (THH) via a Service Level Agreement. Progress against their separate plan is reported to the THH Finance and Audit Committee on a quarterly basis. The THH plan include nine audits and follow up activity.

Progress against the 2021/22 Internal Audit Plan

- 3.3 In July 2021 the audit Committee agreed the 2021-2022 Internal Audit and Anti-Fraud plan. In this reporting period October 2021 to December 2021 the following progress has been made:

Audits in Progress (Fieldwork)

Audit Title	Target for Draft Report
Supporting Stronger Families – Monthly Grant Claim Certification	N/A
Delivery of Efficiency Savings	April 2021
IT Security Breaches and Incident Management	November 2021
Control and Monitoring of Agency Workers	December 2021
Management of Failed Visits for Adults	December 2021

Multi Agency Safeguarding Hub	December 2021
Management of Contract Services Improvement Plan	December 2021
New House Building Programme – Contract Audit	January 2022
Adults Safeguarding Board Case Reviews	March 2022

Draft Reports (Issued to Management)

Audit Title	Draft Report First Issued	No. Days Overdue
Asset Management	15/09/2021	>5
NNDR	18/5/2021	>90
Purchase Cards	5/11/2021	N/A
Freedom of Information (Consultancy)	2/11/2021	N/A
Management of Commercial Waste	22/10/2021	<5

Final Reports

Audit Title	Opinion
IT Programme and Project Management	Reasonable
Asset Management	Limited

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

Updated Internal Audit and Anti-Fraud Plan for 2021/2022

3.5 The Head of Internal Audit should periodically review the internal audit plan and present any significant changes to senior management and the Audit Committee for approval.

3.6 The plan agreed in July 2021 included 25 priority one audits which were deliverable based on current and anticipated resources, and a further 15 priority two audits that would only be deliverable once vacancies had been filled and a delivery partner sourced. Due to staff sickness and delays in recruiting to the additional vacancies (it's unlikely these vacancies will be filled until January 2022 at the earliest) the plan has been reviewed and updated.

3.7 In summary, most of the priority two audits will not be delivered in 2021/2022. We will review the merit of each of these audits during 2022/2023 planning which will begin in January 2022, and where appropriate will carry them forward into next year's plan. Of the original 25 priority one audits:

- Customer Journey - Adult Social Care, Quality Assurance Systems for Adult Social Care and Client management of Waste Functions have been deferred to 2022/2023 at management's request.
- After discussion with management the planned IT audits for Data Protection and Privacy and Delivery of IT Strategy and Architecture have been cancelled. We will revisit these topics and scope when planning 2022/2023. The audit of Access Control Management planned for 2022/2023 has been brought forward to 2021/2022.
- The planned audit of Recruitment Controls and Pre-Employment Checks will be deferred into 2022/2023 in favour of undertaking higher priority audits of key financial systems.

3.8 In total, we anticipate delivering more than 30 audits to support the 2021/2022 annual opinion. This includes audits carried forward from 2020/2021, six of which have been finalised and were reported in October, two remain ongoing. In addition, approximately 10 to 15 school audits will be completed, although this remains subject to sourcing additional external resource. Funding for this resource is being provided by the Children's and Culture directorate.

3.9 For comparison in previous years, in 2019/20, 30 audits were delivered and in 2020/2021 29 audits were delivered (excluding schools).

3.10 The updated plan is presented at Appendix B for the Committee's review and approval. Audits that have been deferred are shown in dark grey.

Management's Progress in Implementing Agreed Actions

3.11 During the period October 2021 to November 2021, 5 follow-up reviews have been completed which confirmed that 87% of High Priority agreed actions had been fully or partially implemented. In addition, 84% of Medium Priority agreed actions had been fully or partially implemented. The table below provides further details.

3.12 The following audits have been followed up:

- Capital Governance
- Control of Parking Permits
- Control and Monitoring of Electronic Parking Income
- Financial Assessments for Adults
- Payment Control for Temporary Accommodation

3.13 The outcome of these follow up audits is summarised in the table below:

Implementation of Agreed Management Actions for Follow Ups verified by Internal Audit between April 2021 and November 2021

	High Priority	Medium Priority
Number of Agreed Management Actions Followed Up	26	31
Number of Management Actions Fully Implemented	9	12
Number of Management Actions Partially Implemented	13	15
Number of Management Actions Not Implemented	4	4
% Fully Implemented	35%	39%
% Partially Implemented	50%	48%
% Not Implemented	15%	13%

3.14 Whilst the combined implementation rate is encouraging the overall percentage of fully implemented high priority actions is low. This has been brought to the attention of the Corporate Leadership Team for action.

Fraud Investigation Activity

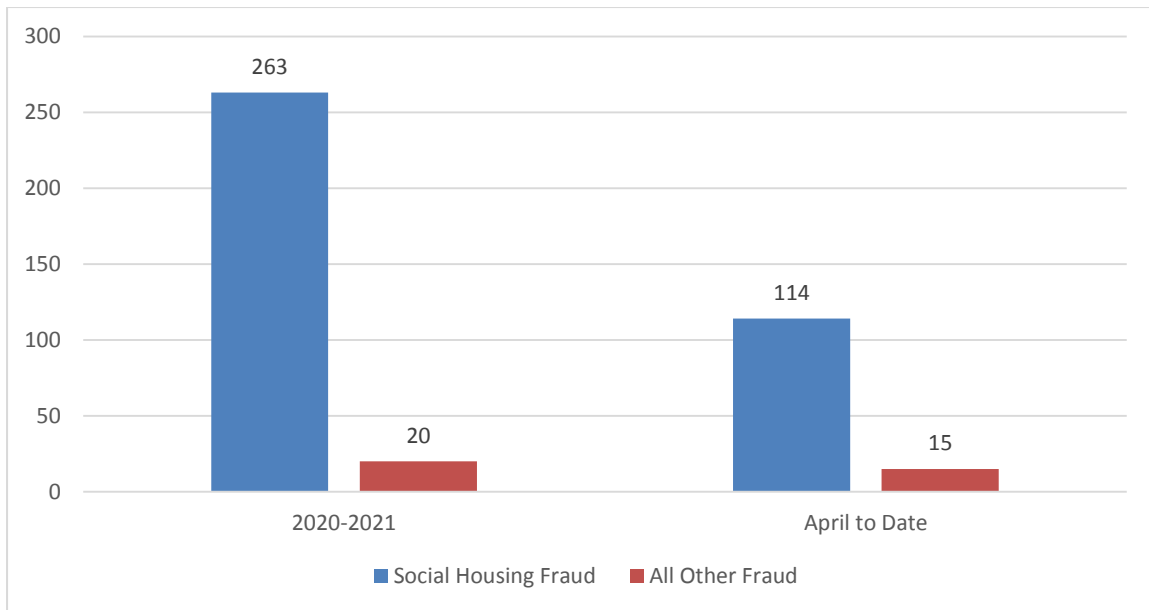
3.15 All investigation activity is now dealt with by one multidisciplinary team, this includes housing fraud, insurance fraud, internal fraud and blue badge fraud. The team consists of five Fraud Investigators, two Social Housing Fraud Investigators (funded by Tower Hamlets Homes) and two Blue Badge Investigators (funded by Parking). The team is supported by an Intelligence Officer and led by an experienced Investigation Manager.

3.16 The investigators continue to diligently investigate allegations of fraud. In line with the Council's strategy during the height of the pandemic, only essential services were in operation. To minimise the risk to the investigators and the public, interviews, foot patrols and visiting were stopped, although desktop investigations continued throughout. It is likely we will see a reduction in outcomes over the coming months until the backlog of investigation and Court work is cleared.

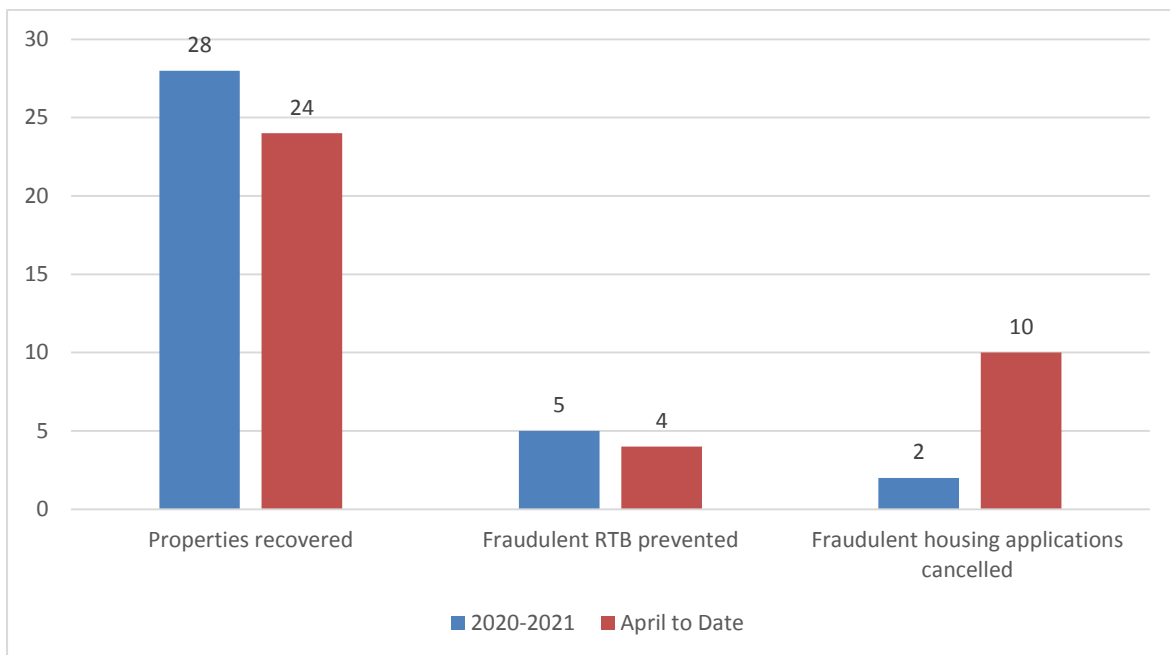
Summary of Caseloads, Referrals and Outcomes for 2021/22

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

Referral Activity Comparison 2020/21 to 2021/22 (To date)



Outcome Comparison 2020/21 to 2021/22 (To date)



3.18 In addition to the outcomes above the team have secured two criminal convictions for housing fraud (one further case was lost) and secured unlawful profit orders amounting to £27,000.

Fraud Prevention Activity

3.19 The Internal Audit and Anti-Fraud Service includes a dedicated Fraud Prevention Officer role that reports to the Internal Audit and Fraud Prevention Manager. Work to date has included:

- Updating and publication of Corporate and Anti-Fraud Strategy

- Updating and publication of the Anti-Bribery policy
- Publication of the Fraud Response Plan
- Publication of the Anti-Money Laundering Policy
- Participating in the Direct Payment working group which is currently reviewing the Direct Payment Policy and service user agreements, both will now include anti-fraud measures
- Changing the single person discount application process for Council Tax which now includes an anti-fraud declaration
- Creation and drafting of an NFI monthly report
- Conducted a high-level proactive assurance review of a sample of a closed NFI data set involving Pension payments.
- Ongoing review/update of Intranet and internet fraud prevention information
- Delivery of a Fraud awareness training to Right to Buy Team (THH)
- Exploring options of improving fraud prevention and detection via data analytics with the Head of Intelligence and performance.

National Fraud Initiative

- 3.20 The National Fraud Initiative (NFI) is an exercise led by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Public sector bodies (including all local authorities) are required through the Local Audit and Accountability Act 2014 to submit data to National Fraud Initiative on a regular basis. The Senior Responsible Officer (SRO) is accountable for ensuring the Council meets the statutory requirements. The SRO for the Council is currently the Interim Corporate Director, Resources.
- 3.21 The council submitted 14 data sets from the NFI exercise 2021, and further checks were requested under the NFI “Recheck”. On the NFI main match the council had a total of 11,961 matches. Note the this considers matches that occur across several data sets and are counted individually. An observation of the “fraud risk view” which discounts such matches brings the actual total to about 5,587. The Recheck results for the council tax to electoral register (this match identifies addresses where the householder is claiming a council tax single person discount on the basis that they live alone yet the electoral register suggests another person lives in the property) totalled 7,833.
- 3.22 The latest data matches were released in late January 2021. Individuals from across the Council’s services have been nominated to review the matches and determine what, if any, action is required to resolve and close the match. A summary of the matches and progress is shown in the table below:

Summary of NFI Matches

Report Title	Total No. Matches	Closed	Under Review	Fraud	Error	Awaiting Processing	Outcome
Housing Benefit Claimants to DWP Deceased	33	1	0	0	0	32	Meeting held with the Head of Service to improve progress on matches. Nominees assigned to matches
Pension Gratuity to DWP Deceased	80	66	13	0	0	1	Pension stopped and £14,898.34 has been recovered thus far
Payroll to Payroll	38	33	4	1	0	0	One investigation which has been referred to the investigation team
Blue Badge Parking Permit to DWP Deceased	309	286	0	3	2	18	286 badges have been cancelled leading to a notional saving of £30,475
Resident Permit to DWP Deceased	60	57	1	0	0	2	Ongoing enquiries with nominees to progress matches
Housing Benefit Claims to Student Loan	208	0	0	0	0	208	Meeting held with the Head of Service to improve progress on matches. Nominees assigned to matches
Pensions to Payroll	75	0	0	0	0	75	Ongoing enquiries with nominees to progress matches
Council Tax to Electoral Register	7833	4155	4	399	393	2882	399 individuals have been taken off the single person discount leading to notional revenue of £304,365
Council Tax Reduction Scheme to Payroll	96	0	0	0	0	96	Ongoing correspondence to get the matches progressed
Council Tax Reduction Scheme to Pensions	334	0	0	0	0	334	Ongoing correspondence to get the matches progressed
Council Tax Reduction Scheme to Pensions	24	0	0	0	0	24	Ongoing correspondence to get the matches progressed
Council Tax Reduction Scheme to Council Tax Reduction Scheme	28	0	0	0	0	28	Ongoing correspondence to get the matches progressed
Council Tax Reduction to Housing Tenants	24	0	0	0	0	24	Ongoing correspondence to get the matches progressed
Council Tax Reduction Scheme to Taxi Drivers	748	0	0	0	0	748	Ongoing correspondence to get the matches progressed
Procurement - Payroll to Companies House	56	0	0	0	0	56	Ongoing correspondence to get the matches progressed

- 3.23 As of November 2021, 605 matches have been opened, 87 matches are being actively investigated, 517 matches have been closed, 7 cases of potential fraud have been identified and 82 matches were closed as errors. The council has achieved a notional saving¹ £405,790.
- 3.24 In addition to the main NFI exercise the Council routinely resubmits some data sets though the recheck service provided by the Cabinet Officer. The results as of November 2021 include 4,197 matches opened, 192 undergoing investigation and 3,386 have been closed. Of these close cases 414 have been identified as errors and 397 as potential fraud cases. The council has achieved a notional saving of £304,365.
- 3.25 Internal Audit coordinates the NFI on behalf of the Council and in that capacity we have undertaken random sampling to test closed matches and ensure that enquiries have been conducted to required expectations as well as the integrity of the outcomes recorded.
- 3.26 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 review which may simply reveal an error in the data that needs to be corrected or a more substantial allegation of fraud. Most matches do not reveal a sanctionable fraud and are dealt with entirely by the appropriate service. The matches classified as fraud above are categorised as such using the NFI's definition of fraud, it does not mean that individual incidents are appropriate for investigation and criminal sanction, most matches are resolved by recovering any financial loss.

Policy and Procedural Changes Post Prosecution

- 3.27 At the Audit Committee in October 2021 the Head of Internal Audit was asked to report on changes that may need to be made to policy and procedure in relation to two topics. The first related to managing personal information of people that contact the Council with information about alleged fraud and the second related to better information sharing between departments.
- 3.28 In relation to the first issue, the Council's Intelligence and Fraud Investigation Team have amended the local procedures to ensure that information from informants is acknowledged within 5 working days (not applicable for anonymous information/complaints). Named informants will be advised how their personal information (usually just a name and email or correspondence address) will be used, securely stored and if necessary, revealed during a criminal prosecution.

¹ Notional savings refers to the amount that the council is estimated to have saved because of action taken as a result of the NFI match. Such action may include the cancellation of a scheme e.g. council tax reduction, cancellation of a right to buy application and calculating the discount or the recovery of a blue badge. The calculation is based on internal council tax information and the NFI estimate methodology. Action will be taken to recover potential lost revenues where possible and a percentage of the notional savings may become actual (cashable) savings.

- 3.29 With respect to disclosure during a criminal prosecution, personal information related to informants will be treated as sensitive and confidential and only disclosed in accordance with the Criminal Procedures and Investigation Act. The Act allows for controlled disclosure designed to ensure the safety of informants. If personal information related to informants must be disclosed (usually just a name) the Investigation Manager will contact the informant in advance of the disclosure to provide advice and support.
- 3.30 In relation to the issue of better information sharing between departments and services, this is a much larger issue and will require the Corporate Leadership Team's direction and support. Unfortunately, because of the scope of this improvement it is not possible to provide an update at this stage and we have agreed with the Chair of the Audit Committee to defer an update until the March Audit Committee.

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 This report is compliant with the Council's legal duties in respect of risk and internal audit. 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 A – Summary of Finalised Audits
- Appendix B – Revised Internal Audit and Anti-Fraud Plan 2021/2022

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
Tel: 07562 431830. Email: paul.rock@towerhamlets.gov.uk