

# Head of Internal Audit Annual Report and Opinion 2019-2020



The best of London in one borough

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## 1. Introduction

### 1.1 The Annual Reporting Process

1.2 The Public Sector Internal Audit Standards (Performance Standard 2450) state that the Chief Audit Executive, referred to in this report as the Head of Internal Audit, must deliver an annual internal audit opinion and a report that can be used by the organisation to inform its governance statement.

1.3 The annual report must incorporate the opinion, a summary of the work that supports the opinion, an explanation about any limitations on the scope, details of other internal or external assurance or activity that may have been relied on when forming the opinion, a statement about conformance with the Public Sector Internal Audit Standards and the results of Internal Audit's Quality Assurance and Improvement Programme.

## 2. Head of Internal Audit Annual Opinion 2019/20

2.1 In reaching my opinion I have taken into consideration the outcomes of audit and anti-fraud activity undertaken during the year; external assurances provided by Ofsted, the significant issues with the Council's Statement of Accounts as well as other relevant matters.

On the basis of the audit and anti-fraud activity undertaken during the year, in particular the audit of risk management, and taking into consideration external assurances and other relevant matters including the significant issues with the closure of the Council's 2018/19 Statement of Accounts and associated accounting procedures that have emerged throughout 2019/20, as well as the breaches of law in relation to Pensions Administration, it is my opinion that I can provide **Limited** assurance that the authority has adequate systems of governance, risk management and internal control.

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### he Basis of the Annual Opinion

3.1 The outcome of the audits undertaken during the year by Internal Audit form the basis of the annual audit opinion over the adequacy and effectiveness of the governance, risk and control framework.

3.2 As agreed at the May 2020 Audit Committee, a new opinion scale will be used from the 1<sup>st</sup> April 2020. The scale is as follows:

Table 1 - 2020/21 Audit Opinion Definitions

<b>Opinion</b>	<b>Definition</b>
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives in the areas audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the areas audited.

3.3 A risk-based internal audit plan was agreed with the Audit Committee in April 2019. The changing public sector environment and emergence of new risks increasingly necessitates re-evaluation of the audit plan throughout the year. During 2019/20, regular reports have been presented to the Audit Committee to highlight progress made towards the delivery of the audit plan, along with details of any significant amendments to the plan. Whilst there were no significant amendments, several planned audits were deferred and moved into the 2020/21 audit plan as a result of resourcing challenges and the Corona virus pandemic.

3.4 An assurance opinion was provided at the conclusion of each audit. During 2019/20 the previous definitions for assurance were used for each audit.

Table 2 – 2019/20 Opinion Definitions

<b>Opinion</b>	<b>Definition</b>
Full	There is a sound system of control designed to achieve the system objectives and from our testing the controls are being consistently applied.
Substantial	While there is basically a sound system there are weaknesses which put some of the control objectives at risk and from our testing there is evidence that the level of non-compliance with

	some of the controls may put some of the system objectives at risk.
Limited	Weaknesses in the system of controls are such as to put the systems objectives at risk and from our testing the level of non-compliance puts the systems objectives at risk.
Nil	Control is generally weak leaving the system open to significant error or abuse and from our testing there were significant non-compliance with basic controls leaves the system open to error or abuse.

#### 4. Internal Audit 2019/20

4.1 The following chart and table summarise the outcomes of the audit reviews completed in 2019/20:

Chart 1 – Overall Insurance

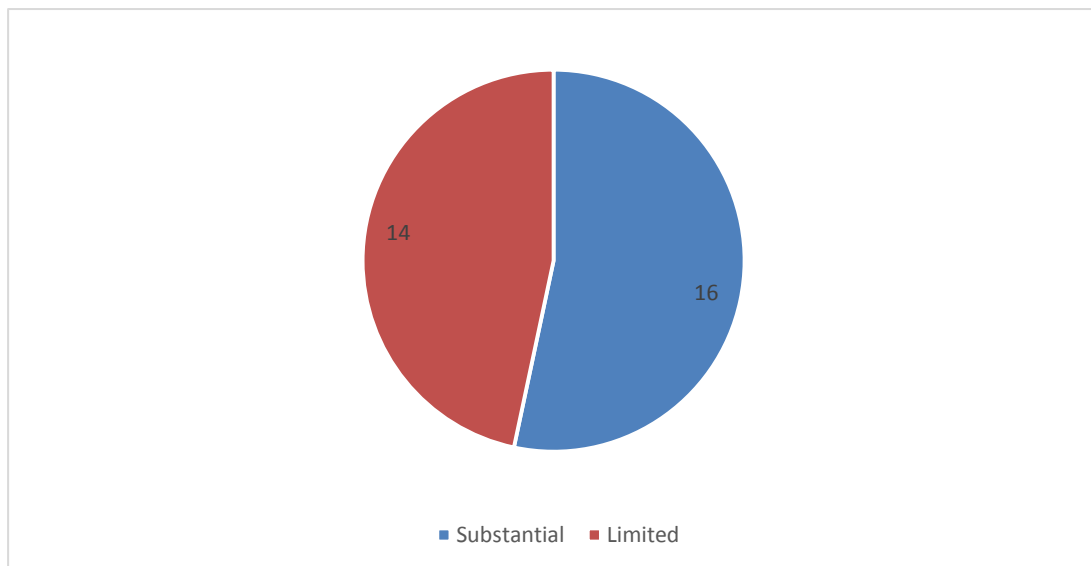


Table 3 - Summary of Internal Audit Outcomes for 2019/20.

<b>Audit Title</b>	<b>Assurance Opinion</b>
Outdoor Education Service	Substantial
Treasury Management	Substantial
Income Maximisation	Substantial
Members Training and Induction – Follow Up	Substantial
Management of Child Protection Case Conferences Follow Up	Substantial
Deprivation of Liberty Safeguards Follow Up	Substantial
Management of Dangerous Structures Follow Up	Substantial
Governance Arrangements for the In-sourcing of Refuse Collection Services.	Substantial

Insurance	Substantial
AEG Contract Monitoring	Substantial
IT - Strategy and Governance	Substantial
IT - Software Asset Management	Substantial
Health and Safety	Substantial
Planning Decisions	Substantial
Key Decision Process Including Mayor's Executive Decisions and Officer Delegated Key Decisions	Substantial
Request for Quotation (RFQ) (Split Opinion)	Substantial / Limited
Client Monitoring of Fire Safety in Residential Dwellings	Limited
Debtors Systems Audit	Limited
Right to Work Compliance	Limited
Management and Control of Electronic Parking Income	Limited
Quality Assurance for Children's Social Care	Limited
Delivery of Efficiency Savings	Limited
Purchase Cards (Follow up)	Limited
Risk Management	Limited
NRPF (Children's).	Limited
NRPF (Adults)	Limited
Financial Safeguarding for the Learning Disabled	Limited
IT - Business Continuity and Resilience	Limited
Review of Financial Delegation Controls	Limited

- 4.2 In total, 16 substantial assurance opinions (53%) and 14 limited assurance opinions (47%) have been given (based on finalised reports only). Summaries of the finalised reports with limited assurance opinions have previously been provided to the Audit Committee. I have also considered the following:

## 5. Other Sources of Assurance and Relevant Matters

### External Audit

- 5.1 From 1 September 2018 Deloitte LLP was appointed as the Council's external auditor, this was following the decision of the Council to opt in to the Public Sector Audit Appointments Limited (PSAA) arrangement. The PSAA Board appointed Deloitte to audit the accounts of the Council for a period of five years (2018/19 to 2022/23).
- 5.2 At the time of drafting this report (June 2020) Deloitte have been unable to complete their audit of the 2018/19 financial statements. There were significant issues with the Council's 2018/19 statement of accounts, and it has taken 12 months for these issues to be largely resolved. The Council developed an action plan that was overseen by the S.151 Officer and the Deputy Section 151 Officer, additional resources were sourced to complete the plan and produce a revised set of accounts, and a dedicated

finance improvement team was created for additional support. Progress has been regularly reported to the Council's Statutory Officers, the Mayor, Cabinet Members and the Audit Committee. The Council published a revised draft set of accounts for 2018/19 in May 2020, but they are yet to be audited by Deloitte. It is anticipated they will be audited over the course of the summer of 2020. Further adjustments may be required, a qualified value for money opinion is also expected. The Corporate Director, Resources is commissioning an independent review to identify lessons learned and avoid similar issues with the accounts in the future.

- 5.3 The Council is in the progress of producing a draft set of accounts for 2019/20. As a result of the Covid-19 pandemic the timetable for publishing the accounts has been extended via new regulations. The final, audited accounts must be published by 30 November 2020. This means that the draft accounts must be approved by 31 August 2020 at the latest, but preferably sooner.

### Ofsted

- 5.4 In June 2019 Ofsted inspected Children's Social Care Services. The report was published in July 2019. Ofsted rated the performance as Good in all areas and concluded the following:

*Services for children in Tower Hamlets are now good and have substantially improved since they were found to be inadequate in 2017. Since then, leaders and managers have had a relentless focus to improve practice to deliver good experiences and progress for children and their families. At all levels, there is effective management oversight and a direct understanding of the quality of significantly improved frontline practice.*

*Effective and well-coordinated universal and early help provision means that children and families receive good help when they need it. Children in need, including those in need of protection, benefit from good assessments that inform plans to reduce risk and improve children's circumstances. The workforce reflects the diversity of the local population and staff sensitively take account of, and respond appropriately to, the cultural and religious needs of children and families in Tower Hamlets*

*Children in care and care leavers receive good support from workers who know them well and are appropriately ambitious for them. They live in stable homes, which helps them to do their best in all aspects of their lives.*

The full report is available [here](#).

## Pensions Administration

- 5.5 In 2019 the Pensions Committee were informed that the Council had breached the law whilst administering the pension scheme. The Council has subsequently self-reported to The Pensions Regulator and put in place a remediation plan to rectify the issues. The issues included:
- A failure to provide Annual Benefit Statements to 100% of scheme members.
  - Outstanding scheme tax returns from previous years
  - Failure to issues Annual Allowance Statements to all scheme members who require one
  - A lack of policy documents as well as data quality issues.
- 5.6 An audit of Pensions Administration was planned for March 2020, however at management's request we agreed to delay the audit until July 2020 due to the global pandemic.

## The Council's Financial Management and the Impact of Coronavirus Pandemic

- 1.1 At the end of 2019/20 the Coronavirus was rated as a global pandemic and as a result the Government introduced stringent social distancing measures and UK wide lockdown. In response, the Council instigated its Pandemic Flu Emergency Response Plan and activated its Borough Emergency Command Structure. The Council stood down all but essential services and introduced new services to support the health and welfare of the community and its workforce. During the response, as the Head of Internal Audit, Anti-Fraud Risk, I was closely involved in the risk management activities for the Gold and Silver groups. It is reasonable therefore for me conclude that, whilst many of the long-lasting effects of the virus are still unclear, in the short-term Council responded commendably and in incredibly difficult circumstances.
- 1.2 However, the pandemic placed further financial strain on the Council, which was already struggling financially. The Council has failed to deliver more than half of the planned savings for 2019/20 and is forecasting an overspend of circa £9 million (final position to be confirmed). Whilst the pandemic certainly has had an impact on the Council's finances, it is not the only reason the Council has failed to delivery savings and overspent. The Corporate Leadership Team recognise this challenge and have put in place measures to improve budget management and delivery of savings. For example, a Budget Manager's Handbook has been issued, high-risk budgets are now subject to 'Budget Challenge' sessions led by the Corporate Director, Resources or the Divisional Director of Finance, Procurement and Audit, and a new process for recording, challenging and approving savings proposals has been instigated. Moving into 2020/21 and beyond, the Council must currently realise savings of around £38 million, assuming it is able to remain in budget for 20/21 and deliver the planned savings.



## 2. Anti-Fraud and Corruption

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

- Intelligence
- Social Housing
- Corporate Investigations
- Blue Badge

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

2.3 In addition to investigating referred cases, the Corporate Anti-Fraud Team undertakes activity to support the Council in reducing its fraud and corruption risks, this includes coordinating 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, along with a number of initiatives to raise awareness of the council's anti-fraud and corruption culture. Progress on this activity has been regularly reported to the Audit Committee.

2.4 There continues to be an increasingly high risk of fraud across the public sector. During 2019/20, 40 corporate/internal referrals in respect of alleged fraud or code of conduct breaches were received. This included referrals received via the Council's whistleblowing procedure. 487 referrals were received in respect of suspected social housing fraud matters, and 70 referrals in respect of Parking / Blue Badge fraud. In addition, 52 insurance claims have been investigated.

2.5 The positive outcomes achieved following the investigation of the above matters includes the following:

- £342,000 has been awarded to the Council in costs and compensation
- 25 insurance claims were repudiated or discontinued with a reserve value of £174,675
- 40 Social Housing properties were recovered.
- 20 Right to Buy applications have been stopped.
- 69 Parking Control Notices were issued.
- 47 illegally parked vehicles were removed.
- 183 Blue Badges were seized.
- 4 Resident Parking Permits were cancelled as a result of inappropriate use.

2.6 Initial matches from the biennial National Fraud Initiative (NFI 2018) data matching exercise were received by the Council in February 2019. The 'potential' fraud matches have been reviewed using the recommended

prioritisation filters. For the NFI 2018 exercise the total number of matches received so far is 38,971, of these 2,388 were considered high or medium risk. To date, a total of 17,721 have been reviewed and resolved. Detailed reports about the current NFI arrangements and progress made have regularly been provided to the Audit Committee.

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

- £382,996 in housing benefit overpayments have been identified as a result of the exercise concerning 46 cases. 44 of these involve students who had not declared their student status on their benefit claim.
- 66 housing benefit cases have been referred to the Department for Work and Pensions for further investigation.
- £11,341 has been identified as overpaid LBTH pensions, recovery is being pursued.
- 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 counts 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 from 633 households, calculated to be the value of £439,960. Note that council tax matching runs annually, and these results are for the year of 2019. The current year's matched output has not been dealt with by the Revenues section yet due to the extra work undertaken by the team concerning Covid 19 related work.

2.8 The Corporate Anti-Team have continued to support the Council and its partner Tower Hamlets Homes with ongoing anti-fraud training sessions and introduced a bespoke on-line fraud awareness e-learning tool to help embed an anti-fraud culture. The objective of this was to coincide with International Anti-Fraud week and specifically enable the Council to ensure all staff are familiar with the features of good governance and what could potentially be fraudulent activity and how to report it.

2.9 Features of the work of the Corporate Anti-Fraud team also included detailed reviews of No Recourse to Public Funds applications. There has also been proactive activity on the Corporate Fraud Risk Register and benchmarking with peers to ensure we remain relevant and responsive to emerging fraud risks. The Corporate Anti-Fraud Manager has been an active member of the London Borough's Fraud Investigation Group that seeks to promote effective use of resources in the minimising of fraud risk and sharing good practice.

### **3. Implementation of Agreed Management Actions**

- 3.1 In each instance where it was identified that the control environment was not strong enough or was not complied with sufficiently to prevent risks to the organisation, Internal Audit have obtained an agreed management action plan to address the weaknesses identified and improve the system of control and compliance.
- 3.2 As a part of the follow up audit work programme, high and medium priority recommendations are normally followed up six months after the issue of the final reports to assess the progress made in implementing the agreed actions. However, during 2019/20, as a result of resourcing challenges follow up activity was paused so that Internal Audit could focus on completing the core internal audit plan. For 2020/21 a new streamlined processes for monitoring and reporting progress has been introduced and agreed with the Audit Committee.
- 3.3 Of the 5 follow up audits that were completed we were able to give substantial assurance on 4 and limited assurance on 1 that the recommendations and agreed management actions had been addressed.

### **4. Schools**

- 4.1 During 2019/20, 14 schools were selected for internal audit review. A standard audit program is used to ensure consistency with regards to the scope of review for each school visited. The scope of the reviews covers:
- Operation of Governance Processes
  - Financial Planning and Budgetary Control
  - Control and Monitoring of Schools Bank Account(s)
  - Procurement and Expenditure (including Large Single Purchases Tendering & Value for Money and Purchase cards)
  - Income Collection and Banking
  - Personnel and Payroll Management
  - School Meals and School Journeys
  - Inventory
  - Security and Risk Management.
- 4.2 For every school report issued an action plan has been agreed with the school. The implementation of these actions should ensure that the control environment at these schools is improved to an appropriate level. Table 5 below details the schools subject to audit during 2019/20 with the assurance opinion provided. Unfortunately, due to the Coronavirus pandemic schools were closed for several months which impacted on the completion of the internal audits. The audits that were not completed will be carried forward into 2020/21.

Table 5 – Schools Audits 2019/20

School Name	Assurance
Old Church Nursery School	Substantial
Osmani Primary School	Substantial
Ben Johnson Primary School	Substantial
Mayflower Primary School	Substantial
Stepney Greencoat Primary School	Substantial
Christ Church Primary School	Limited
Guardian Angels Primary School	Nil

## 5. Scope limitations

- 5.1 Internal Audit does not audit the Council's annual statement of accounts and this opinion does not cover the associated financial statements and disclosures. The Council's external auditors (Deloitte) are responsible for the audit of the annual statement of accounts and reporting whether, in their opinion, they present a true and fair view of the financial position of the Council. At the time of preparing this report neither the 2018/19 nor 2019/20 accounts have been audited, although as previously stated there were significant issues with the 2018/19 accounts.
- 5.2 The internal audit plan cannot address all risks across the Council and the plan represents our best use of the available resources. The annual opinion draws on the work carried out by Internal Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit plan. Not all risks fall within our audit plan.

## 6. Internal Audit Performance

- 6.1 During the year the Internal Audit service carried two vacancies and a third member of staff left in February 2020. We attempted to recruit to the auditor vacancies but were unable to secure sufficient quantity and quality of candidates. To compensate, the internal audit service was supported by the engagement of a third-party provider to deliver internal audits across the Council and in schools. Delivery (and recruitment) has been further hampered by the Coronavirus pandemic. As a result, the audit plan first agreed with the Council in April 2019 has not been delivered in full. In total 20 audits have not been delivered or were deferred into 20/21 at management's request. As part of the planning process for 2020/21 we have considered which of the undelivered audits can be carried forward into 2020/21 but resource limitations remain.
- 6.2 The Internal Audit plan for 2019/20 was agreed with the Audit Committee in April 2019. We aim to achieve 90% completion of the plan to draft report stage by 30<sup>th</sup> May 2020. As at 30<sup>th</sup> June 2020, 70% of the audit plan was complete to at least draft report stage (after deferrals and additions have been taken into account).

- 6.3 Continuous development in the quality of the internal audit service remains a key objective. In order to obtain feedback from the organisation, when final reports are issued a 'Customer Satisfaction Survey' is issued to all officers who receive the report. Respondents are requested to provide an opinion as to the effectiveness of the audit and the relevancy of the audit recommendations provided.
- 6.4 For 2019/20, out of the 21 satisfaction surveys sent out for final reports (including Tower Hamlets Homes) 13 completed surveys were received. All 13 surveys have reported back positive outcomes indicating that the recommendations made in the internal audit report will lead to improvement in control environment.

## 7. Internal Audit's Independence

- 7.1 During the year the Head of Internal Audit was also responsible for the Council's Risk Management and Insurance services. To manage the risk to organisational independence both the Risk Management and Insurance functions were audited separately by the audit contractor and each audit was sponsored by the Divisional Director for Finance, Procurement and Audit; the outcomes of these audits have been reported to the Audit Committee. In all other respects Internal Audit has operated independently of the organisation and there were no compromises of Internal Audit's independence in its operation this year.

## 8. Conformance with the Public Sector Internal Audit Standards and the Quality Assurance and Improvement Programme

- 8.1 During 2019, a self-assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards was undertaken. The self-assessment concluded that out of the 56 areas of compliance, there were 15 standards where the current internal audit practices were not considered to be consistent with the requirements of the standards. Areas of partial or non-conformance included:

Areas of partial or non-conformance	Current Status
The Audit Charter.	The charter has been updated and agreed with the Audit Committee.
Managing the risk to Internal Audit's independence.	The risk of independence has been managed. Both Risk Management and Insurance have been separately audited.
Issuing engagement plans for consultancy work.	Whilst no consultancy work was accepted in 2019/20, in future engagement plans will be issued.
Implementation of a Quality Assurance	A full QAIP has been introduced and

and Improvement Programme (QAIP).	will operate from the 1 April 2020.
Adequacy of resources.	Resources remain a challenge but are now being supplemented through a contract with an external provider.
Coordination with other assurance providers.	We have committed to coordination with other assurance providers where applicable.
Monitoring and reporting the disposition of audit recommendations.	We have introduced a new streamlined process for monitoring and reporting management's implementation of agreed actions.

- 8.2 A full action plan was developed to address the areas of partial or non-conformance and progress against this plan has been reported to the Audit Committee. As at the 30<sup>th</sup> June 4 actions remain outstanding which primarily relate to updating the audit manual to reflect new practices.
- 8.3 The self-assessment confirmed that we are fully complying with the Code of Ethics. A further self-assessment against the standards will be undertaken during 2020/21.
- 8.4 Some work is required to be fully compliant with the standards and to embed the Quality Assurance and Improvement Programme. Whilst there are standards that require further work, I am of the view that the level of compliance does not impact on my ability to provide an annual opinion over the internal control framework.