


Non-Executive Report of the:  <b>Audit Committee</b>  21 July 2020	
<b>Report of:</b> Asmat Hussain, Corporate Director, Governance and Monitoring Officer	<b>Classification:</b> Open (Unrestricted)
<b>Internal Audit and Anti-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 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. Note the Protocol for Collaborative Working with Barts Health NHS Trust.

## 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 we have been working with management to finalise the remaining audits from the 2019/20 Internal Audit plan. The current position is summarised in the tables below:

**Table 1 – Completed Audits for 2019/20**

<p><b>Substantial Assurance</b></p> <ul style="list-style-type: none"> <li>• Outdoor Education Service</li> <li>• Treasury Management</li> <li>• Income Maximisation</li> <li>• Members Training and Induction – Follow Up</li> <li>• Management of Child Protection Case Conferences follow up</li> <li>• Deprivation of Liberty Safeguards Follow Up</li> <li>• Management of Dangerous Structures Follow Up</li> <li>• Governance Arrangements for the In-sourcing of Refuse Collection Services.</li> <li>• Insurance</li> <li>• AEG Contract Monitoring</li> <li>• IT - Software Asset Management</li> <li>• IT - Strategy and Governance</li> <li>• Health and Safety</li> <li>• Old Church Nursery School</li> <li>• Osmani Primary School</li> <li>• Key Decision Process, incl. Mayoral &amp; Officer Decisions</li> <li>• Planning Decisions</li> <li>• Ben Jonson Primary School</li> <li>• Mayflower Primary School</li> <li>• Stepney Greencoat Primary School</li> </ul>	<p><b>Limited Assurance</b></p> <ul style="list-style-type: none"> <li>• Client Monitoring of Fire Safety in Residential Dwellings</li> <li>• Request for Quotation (RFQ)</li> <li>• Debtors Systems Audit</li> <li>• Right to Work Compliance</li> <li>• Management and Control of Electronic Parking Income</li> <li>• Quality Assurance for Children’s Social Care</li> <li>• Efficiency Savings</li> <li>• Purchase Cards (Follow up)</li> <li>• Risk Management</li> <li>• NRPf (Children’s).</li> <li>• NRPf (Adults)</li> <li>• Financial Safeguarding for the Learning Disabled</li> <li>• IT - Business Continuity and Resilience</li> <li>• Financial Delegations</li> <li>• Christ Church Primary School</li> </ul>
<p><b>Nil Assurance</b></p> <ul style="list-style-type: none"> <li>• Guardian Angels Primary School</li> </ul>	

**Table 2 – Audits at the Draft Report stage for 2019/20 (Draft opinions are subject to change)**

<b>Substantial (Reasonable) Assurance</b>	<b>Limited Assurance</b>
<ul style="list-style-type: none"> <li>• Data Security and Protection Toolkit</li> <li>• Local Community Fund (LCF)</li> <li>• Kobi Nazrul Primary School</li> <li>• St Johns Primary School</li> <li>• Deputyships and Appointeeships (Limited / Substantial) – Split Opinion)</li> <li>• Creditors</li> </ul>	<ul style="list-style-type: none"> <li>• IR35 Off Payroll Engagement</li> <li>• Corporate Governance.</li> <li>• Monitoring Domiciliary Care Contracts.</li> <li>• Capital Programme Governance.</li> <li>• Acquisition of Properties for Homelessness-Management &amp; Control</li> </ul>

3.2 20 audits (including schools) from the 2019/20 have either been deferred at management’s request or we were unable to deliver by 30<sup>th</sup> June. We have evaluating these to determine which will be carried forward into the 2020/21 plan and which will be cancelled in favour of higher risk areas. The following audits are in progress or will be carried forward:

- General Ledger (Currently in fieldwork)
- Revenue and Capital Budgetary Control (Currently in fieldwork)
- Housing Allocations and Lettings (Currently in fieldwork)
- Financial Assessments, Billing and Recovery for Adults Social Care (Currently in fieldwork)
- Debtors and Income Recovery (Deferred at management’s request)
- Pensions Administration (Deferred at management’s request)
- NNDR (Deferred at management’s request)
- Group School PFI - Contract Monitoring
- Delivery of Efficiency Savings
- Performance Management
- Fire Risk Assessment and Enforcement (Fire Risk Assessments Carried Forward to 20/21)
- New Town Hall Building Project
- Bowden House Special School (Currently in fieldwork)
- Harbinger Primary School
- English Martyrs RC Primary School
- Bigland Green Primary School
- St Matthias Primary School
- Central Foundation Girls Secondary School
- Sir John Cass Redcoat Secondary School

3.3 The following audit will be cancelled:

- CCTV (Cancelled)

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 has been deferred to 2020/21 and this has been replaced by

another audit. Of these, 2 are at the planning stage, 2 are at fieldwork stage, 3 are at draft report stage and 1 audit has been finalised. Separate reports on progress and outcomes are provided to the Tower Hamlets Homes Finance and Audit Committee.

### Overview of Finalised Audits

3.5 Since the last report that was presented to the Audit Committee in May 2020, 9 final reports have been issued. In summary, 3 audits have been issued with Limited assurance and 6 with Substantial Assurance. Summaries of the key findings and recommendations of all these audits are available at Appendix A.

#### Limited Assurance

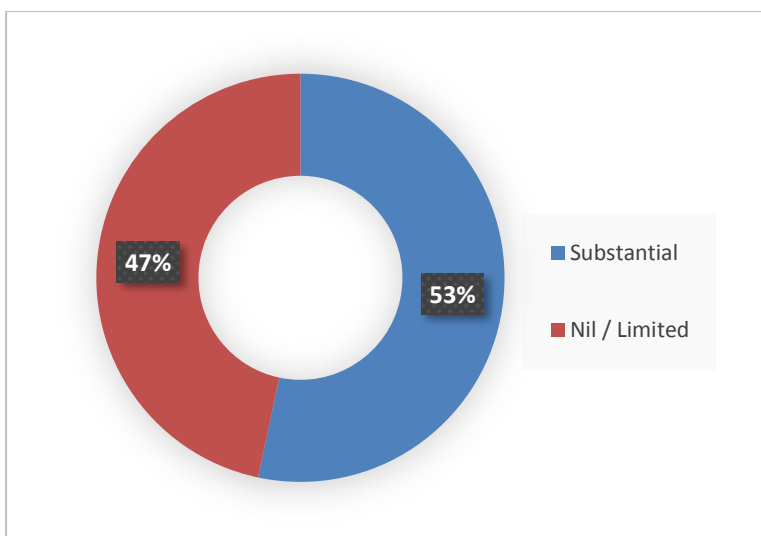
- IT Business Continuity and Resilience
- Financial Delegations
- Financial Safeguarding for Service Users with Learning Disability

#### Substantial Assurance

- Management of Health and Safety
- Key Decisions Process Including Mayoral Executive Decisions and officers Delegated Decisions
- Monitoring of Events Management Contract in Victoria Park
- IT Software and Asset Management
- IT Strategy and Governance
- Planning Decisions

3.6 Overall, the assurance picture for all final reports (excluding schools) issued to date is 47% of audits providing Limited Assurance and 53% providing Substantial Assurance.

**Chart 1 – Summary Assurance Opinions (Excluding Schools)**



3.7 In addition to the finalised audits there are a number of draft reports awaiting management responses. The following table details these reports, including when they were issued to management and the draft opinion.

**Table 4 – Draft Internal Audit Reports Issued to Management (Draft opinions are subject to change)**

<b>Audit</b>	<b>Draft Opinion</b>	<b>Directorate</b>	<b>Date First Issued</b>	<b>Reminders Sent</b>
IR35 Payroll Engagements	Limited	Resources	16/12/2019	02/04/2020 30/06/2020
Monitoring of Domiciliary Care Contracts	Limited	Adults	07/01/2020	22/01/2020 05/03/2020 02/07/2020
Data Security & Protection Toolkit	Substantial	Governance	30/01/2020	19/02/2020 05/03/2020 02/04/2020 30/06/2020
Deputyships & Appointeeships	Limited / Substantial	Adults	15/02/2020 Reissued 15/6/2020	First response: 02/04/2020 Reminder: 29/06/2020
Acquisition of Properties for Homelessness-Management & Control	Limited	Place	14/05/2020	Meeting held 19-6-2020
Capital Programme Governance	Limited	Place / Resources	18/05/2020	First Response received 3-7-2020.
Corporate Governance	Limited	Governance	15/05/2020	First Response received 2-7-2020
Local Community Fund	Substantial	Governance	16/06/2020	Meeting held 25-6-2020
Creditors	Substantial	Resources	26/06/2020	N/A

### **Implementation of Agreed Management Actions**

3.8 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.

3.9 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.

3.10 Progress on Follow Up Audit work to date is as follows. We will report the full picture at the next Audit Committee:

<b>Follow Up Audit</b>	<b>Current Status</b>
Requisition To Pay	Field work in progress
LBTH Client Monitoring of Fire Safety in Residential Dwellings	Field work in progress
Management of Members Enquiries	Field work in progress
Whistle blowing Procedures	Planning Stage

### **Public Sector Internal Audit Standards**

- 3.11 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.
- 3.12 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. Actions that have previously been reported to the Committee as completed have been removed from the update.

### **Corporate and Social Housing 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 Referrals and Outcomes for 2019/20**

- 3.16 A summary of referrals and outcomes for 2019/20 is show below:

**Table 5 - Corporate Fraud Team, April 2019 to 31 March 2020**

No. of referrals	Closed	Rejected	Ongoing
40	27	3	10

**Table 6 - Social Housing Fraud Team, April 2019 to 31 March 2020**

No. of Referrals	Closed	Rejected	Ongoing	Properties Recovered	RTB Applications Stopped	Misc. successful outcomes
487	146	172	93	40	20	19

**Table 7 - Blue Badge Fraud Outcomes, April 2019 to March 2020**

Parking Control Notices Issued	69
Badges Seized	183
Cautions Given	5
Verbal Warnings Issued	66
Resident Permits Cancelled	4
Vehicles Removed	47

**Table 5 - Insurance Investigator Caseload 2019/20**

Total No. of claims received:	232
No. of claims investigated:	52
Total value of claims investigated:	£986,453
No. of claims repudiated as a result of investigation:	24
No. of claims withdrawn during investigation:	1
Total value of claims repudiated or withdrawn (above):	£174,675

- 3.17 In addition, a further 11 claims with a reserve value of £537,417 remain under investigation.
- 3.18 Over the course of the last year the Corporate and Social Housing Fraud Teams have achieved numerous successes. These can be summarised as follows:
- 3.19 The Social Housing team have recovered 40 properties from all sources in the past financial year and prevented the sale of 20 units under the Right to Buy scheme. To put this into a financial context, the government state that on average recovering a property for reuse by a genuine family notionally saves the Council £18,000 in temporary accommodation costs; a total of £720,000. By stopping suspicious Right to Buy purchases the Council avoids loss of the discount which is equal to £110,400 per property; a total of £2.21 million. In addition, removing Blue Badges from circulation potentially increases parking income by £5,644<sup>1</sup> per badge; a total of £1.03 million.

<sup>1</sup> Based on the Blue Badge Reform Strategy: Enforcement Evidence Base published by the Department for Transport in 2010

- 3.20 Through our approach to prosecuting cases where the evidence and public interest justifies the action, we have achieved successful outcomes in criminal cases resulting in financial awards in the sum of £342,000 in the past financial year. Wherever possible we have sought to publicise the successes in the media to act as a deterrent to others.
- 3.21 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.
- 3.22 Features of the work of the Corporate Anti-Fraud team also include detailed reviews of No Recourse to Public Funds applications, investigations into alleged financial impropriety across various parts of the Council and Tower Hamlets Homes and ensuring we completed the National Fraud Initiative data matching exercise. 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 is 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.

### **Impact of the Coronavirus**

- 3.23 The service has observed evidence of emerging fraud risks as a result of the Coronavirus. Most notably in relation to Business Grants. In total we have investigated 9 incidents of Business Grant Fraud with a total value of £140,000. These frauds have been perpetrated by fraudsters posing as the genuine business owners. We have completed initial investigations but due to a lack of legal authority to obtain bank account details we have referred these cases to the Police for further investigation. Whilst it is disappointing that fraud has been committed, it should be seen in context. In total the Council has paid out over £63 million in Business Grants to around 4,200 businesses without incident.
- 3.24 In addition to new fraud risks emerging the Corporate and Social Housing Fraud Team's investigations have been hampered by the Corona virus pandemic. Whilst desktop investigation has continued in earnest, interviews and visiting has been stopped completely. As a result, there are many investigations that have been temporarily suspended. We are currently exploring options for interviews and visits to restart in a safe manner for both the investigators and the people under investigation. In the short term this has not had an impact on the team's performance, however we may see a reduction in outcomes over the coming months until the backlog of investigation work is cleared.



## National Fraud Initiative 2018/19

3.25 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 4 - 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	3,851	136	337	2,878
Council Tax Reduction	2,117	64	23	724
Housing Waiting List	941	79	703	56
Housing Tenants	1,036	309	130	284
Right to Buy	213	100	46	83
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	3096
Council Tax (Other)	12,650	0	0	0
<b>Matches total</b>	<b>38,971</b>	<b>1,025</b>	<b>1,363</b>	<b>17,721</b>

3.26 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. Forty four of these involve students who had not declared their student status on their benefit claim.
- Sixty six 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.

### **Coordination of Assurance**

3.27 The Head of Internal Audit is required by the Public Sector Internal Audit Standards to share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts. We have recently agreed a protocol with London Audit, who provide internal audit services to Barts Health NHS Trust, which sets out how we will work together and share information on areas of common interest, such as the integration of Health and Social Care and related activities and governance, including the local Health & Wellbeing Board and East London Health & Care Partnership. A copy of the protocol is attached at Appendix C.

### **Recommendation**

3.28 The Audit Committee is asked to **note** the contents of the protocol.

#### **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 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 Internal Audit Summaries
- Appendix B Action Plan for Public Sector Internal Audit Standard
- Appendix C Protocol for collaborative working between the London Borough of Tower Hamlets and Barts Health NHS Trust

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

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

- NONE

#### **Officer contact details for documents:**

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