

Governance, Audit, Risk Management and Standards Committee **AGENDA**

DATE: Wednesday 6 December 2017

TIME: 7.30 pm

VENUE: Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY

MEMBERSHIP (Quorum 3)

Chair: Councillor Antonio Weiss

Councillors:

Ghazanfar Ali
Maxine Henson
Mrs Rekha Shah

Amir Moshenson
Kanti Rabadia
Bharat Thakker

Reserve Members:

1. Margaret Davine
2. Nitin Parekh
3. David Perry
4. Krishna Suresh

1. John Hinkley
2. Chris Mote
3. Pritesh Patel

Contact: Miriam Wearing, Senior Democratic Services Officer
Tel: 020 8424 1542 E-mail: miriam.wearing@harrow.gov.uk

Useful Information

Meeting details:

This meeting is open to the press and public.

Directions to the Civic Centre can be found at:
<http://www.harrow.gov.uk/site/scripts/location.php>.

Filming / recording of meetings

The Council will audio record Public and Councillor Questions. The audio recording will be placed on the Council's website.

Please note that proceedings at this meeting may be photographed, recorded or filmed. If you choose to attend, you will be deemed to have consented to being photographed, recorded and/or filmed.

When present in the meeting room, silent mode should be enabled for all mobile devices.

Meeting access / special requirements.

The Civic Centre is accessible to people with special needs. There are accessible toilets and lifts to meeting rooms. If you have special requirements, please contact the officer listed on the front page of this agenda.

An induction loop system for people with hearing difficulties is available. Please ask at the Security Desk on the Middlesex Floor.

Agenda publication date: Tuesday 28 November 2017

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

- (i) to take the place of an ordinary Member for whom they are a reserve;
- (ii) where the ordinary Member will be absent for the whole of the meeting; and
- (iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
- (iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. CHANGE IN MEMBERSHIP

To note the appointment of Councillor Kanti Rabadia in place of Councillor Barry Macleod-Cullinane as a member of the Committee and the appointment of Councillor John Hinkley as a Reserve.

3. APPOINTMENT OF VICE-CHAIR

To appoint a Vice-Chair for the remainder of the 2017/18 municipal year.

4. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee;
- (b) all other Members present.

5. MINUTES (Pages 7 - 12)

That the minutes of the meeting held on 5 September 2017 be taken as read and signed as a correct record.

6. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

[The deadline for receipt of public questions is 3.00 pm, Friday 1 December 2017. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

7. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

8. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

9. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS

To receive references from Council and any other Committees or Panels (if any).

10. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY: MID YEAR REVIEW 2017-18 (Pages 13 - 30)

Report of the Director of Finance

11. INFORMATION REPORT - ANNUAL AUDIT LETTER 2016-17 (Pages 31 - 42)

Report of the Director of Finance

12. INFORMATION REPORT - INTERNAL AUDIT AND CORPORATE ANTI-FRAUD MID-YEAR REPORT AND PLAN UPDATE 2017/18 (Pages 43 - 74)

Report of the Corporate Director Resources and Commercial

13. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

14. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the press and public be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
16.	INFORMATION REPORT – Corporate Risk Register	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information))

AGENDA - PART II

15. INFORMATION REPORT - CORPORATE RISK REGISTER (Pages 75 - 112)

Report of the Corporate Director Resources and Commercial.

*** DATA PROTECTION ACT NOTICE**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

This page is intentionally left blank

GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE MINUTES

5 SEPTEMBER 2017

Chair: * Councillor Antonio Weiss

Councillors: * Ghazanfar Ali * Amir Moshenson
* Maxine Henson Mrs Rekha Shah
* Barry Macleod-Cullinane * Bharat Thakker

* Denotes Member present

191. Attendance by Reserve Members

RESOLVED: To note that no apologies had been received and no Reserve Members had been appointed.

192. Declarations of Interest

RESOLVED: To note that there were no declarations of interests made by Members.

193. Minutes

RESOLVED: That the minutes of the meeting of the Committee held on 18 July 2017 be taken as read and signed as a correct record.

194. Public Questions, Petitions or Deputations

RESOLVED: To note that no public questions, petitions or deputations were received at this meeting.

195. References from Council and other Committees/Panels

RESOLVED: To note that no references had been received.

RESOLVED ITEMS

196. Statement of Accounts 2016-17

The Committee received a report on the audited accounts for the Council for the 2016-17 financial year; this included the expected opinion of the external auditors, KPMG, on the accounts. An officer reported that there had been no significant amendment since the draft accounts were considered by the Committee in July. She thanked Andy Sayers and Emma Larcombe from KPMG for the professional and proficient way they had conducted the audit and for the support they had given to officers throughout the process.

Andy Sayers, partner at KPMG, introduced their external audit report (Appendix 4), explaining the circumstances of the adjusted and unadjusted audit differences which had been discovered; none of these had been judged as being material to the overall opinion on the accounts. He took the Committee through the significant audit risks identified, confirming that KPMG were comfortable with the measures taken to mitigate the risks. In respect of the Council's financial resilience and value for money processes, KPMG considered the arrangements for identifying, monitoring and reporting on budget savings to be appropriate. Mr Sayers cautioned that this opinion related to the arrangements rather than the achievement of savings; in common with other councils, there would undoubtedly be challenges in this area. He referred to the Council's level of general reserves, confirming that they were at the lower end of the London range among a number of authorities at a similar level; in this respect, KPMG would monitor the budgeting processes and the Council's management of the savings position. Mr Sayers confirmed that some 14 items identified in their audit for 2015-16, 10 had been implemented and only 4 such items had been raised in 2016-17 with none of these being significant. He considered that this represented good progress and he was confident KPMG would issue an unqualified opinion on the accounts. He concluded by confirming the company's independence in its role as the Council's external auditors.

The Chair thanked Mr Sayers and Ms Larcombe for their work on the audit, and also thanked the Director of Finance and her staff for again achieving what was expected to be an unqualified opinion on the accounts.

A Member was interested to know KPMG's view about whether the Council's level of reserves could be considered as "prudent". Mr Sayers confirmed that KPMG was comfortable with the way in which the reserves had been set; he underlined that councils obviously had to work with the funds available to

them for this purpose and also explained that the practice of authorities varied in terms of the treatment of earmarked and non-earmarked reserves so comparisons were not necessarily simple.

The Member also raised the question of bank reconciliations, asking whether KPMG considered the deficiencies in this area to be fundamental. Mr Sayers acknowledged that control of cash was an issue of fundamental importance and advice had been given on tightening procedures to reduce the risk of discrepancies. He confirmed that satisfactory explanations had been provided for the issues identified in the audit. An officer advised that more robust in-year procedures had been put in place with regular meetings with the cashiers to investigate any discrepancies and delays. The Member was assured that appropriate action had been taken in response to this audit recommendation.

A Member queried the item designated as “donated assets” in Paragraph 5.9 of the accounts (Taxation and Non-Specific Grant Income). It was explained that this related to deferred capital receipts in respect of the Gayton Road disposal and the accounting requirements demanded that it be described as “donated assets” in this table. In response to a proposal that the document should explain this, an officer advised that the accounts needed to follow CIPFA guidance on how items were described and categorised; however, it was agreed that a note could be included to identify this item. The estimated date of the receipt from Gayton Road could be found in the Cabinet report on the budget and this would be provided to the Member.

A Member suggested that more information should be given to identify projects which were related to the useable and non-useable reserves. Officers agreed to add a note in this respect.

The Member also asked about the treatment of the “fair value” figures for investment properties and Mr Sayers explained how this related to non-useable reserves. With regard to the fair value figure for Council dwellings in the table at 5.10.3, it was explained that there were zero figures for the years 2013 to 2016 because the properties were valued every five years. When it was proposed that notes should be added to clarify this, Mr Sayers and officers advised that the statement of accounts followed the CIPFA Code of Practice in terms of its format and item descriptions. While it was accepted that these were minimum standards, there was concern that the use of notes to clarify items and explanations of context would lead to the statement of accounts becoming overly long and detailed. Also, at this stage, the accounts were close to formal closure and the Committee had been given the opportunity to amend them at the draft stage in July. The Director of Finance would take the Members’ points on board in respect of preparation of the next set of accounts. The Chair agreed that it was unrealistic to expect the accounts to explain the background to many of the items included in accordance with accounting guidance.

In response to the Member’s further questions on loans to the Concilium group of companies, officers agreed to confirm where in the accounts these were included.

A Member asked about the item termed “financial assumptions” in the table at Paragraph 5.38.3 of the accounts with a figure of £173m attached to it. The Director of Finance would write to the Member to clarify this.

In response to a Member pointing out that the description of the Council’s organisational structure at Paragraph 1.1 of the accounts was out-of-date, it was explained that the description was accurate as at 31 March 2017, the relevant date for this document.

A Member was interested in KPMG’s opinion as to whether the Housing Revenue Account (HRA) was in a robust state; in particular, he was interested in its viability without considering HRA receipts. Mr Sayers explained that, in the context of the preparation of accounts, relevant receipts had to be included in the HRA which was a ring-fenced account. Officers confirmed that it was not relevant to exclude receipts from an assessment of the viability of the HRA since these were a genuine and valid element of this account. The Director of Finance reiterated her offer to meet with the Member and the Divisional Director for Housing to discuss broader issues related to the HRA.

In response to a further question about the reserves, the Director of Finance acknowledged that any council would prefer a higher level but it was necessary to find a balanced approach as between the amount of reserves and the pressure to achieve budget savings. As part of the budget setting exercise, the Director of Finance had, in Appendix 10 of the Final Revenue Budget 2017-18 and MTFS 2017-18 to 2019-20 report to Cabinet in February 2017 outlined the adequacy of general fund balances based on a number of factors as detailed in the report. It would not be practical for the Council to consider higher reserve levels without imposing very difficult savings options. The Chair pointed out that the chart of reserve levels across London Borough councils revealed that Harrow was one of many at about the same low level, reflecting the reality of the challenging financial climate faced by local government in general.

RESOLVED: To

- (1) note the reports of the External Auditor on matters arising from the audit of the Statement of Accounts 2016-17 and the Pension Fund Annual Report 2016-17;
- (2) approve the audited Statement of Accounts 2016-17 and note the Pension Fund Annual Report 2016-17 and authorise the signing thereof by the Chair;
- (3) authorise the Director of Finance, following consultation with the Chair, to make any final amendments to the Accounts and Pension Fund Annual Report arising from the external audit prior to the signing of the accounts by the auditor; and
- (4) note the Summary Statement of Accounts 2016-17.

197. Annual Governance Statement 2016-17

The Committee received a report on the Council's arrangements to promote effective corporate governance of the authority, ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In particular, the Committee's attention was drawn to the improvements required in the area of health and safety. The Divisional Director, Environment & Culture and the Head of Community and Public Protection, attended the meeting to address the issues since their department was now responsible for this area. The Divisional Director underlined his commitment to ensuring the Council improved its health and safety controls given its fundamental importance for citizens, service users and staff. The Corporate Strategic Board (CSB) had adopted a draft health and safety policy and action plan, providing the framework for a more structured approach in future.

A Member asked about the performance in terms of ensuring that new staff were complying with the requirement to take an online training course; he also was interested in how managers were held accountable for this. It was confirmed that the induction programme for staff included health and safety; in addition to the online course, staff without ready access to computers received a booklet and briefing. The Environment and Culture Division used "safety circles" to encourage a focus on health and safety, and there was also joint work with the trade unions. A software package had been implemented allowing for effective and coordinated data capture. The Divisional Director would write to the Member in respect of the specific question on the proportion of new staff taking the online training.

In response to the Member's question about the adequacy of resources to implement the health and safety work, it was confirmed that a dedicated post of Health and Safety Manager had been established in the Environment and Culture Division where some of the more significant risks were likely to arise due to the nature of the services.

It was proposed by a Member that a report be brought to the next meeting on progress with the health and safety work. The Corporate Director, Resources and Commercial, reported that CSB had been careful to establish a realistic timescale for this work; while a progress report could be made to the Committee in December, it would necessarily be an interim update. In terms of resourcing, it would be important for the Council to embed health and safety as part of managers' responsibilities across the organisation rather than solely in a health and safety function.

In response to another question from a Member, it was confirmed that Internal Audit would monitor progress on the improvements to health and safety arrangements.

RESOLVED: To

- (1) approve the Annual Governance Statement for 2016/17;

- (2) approve the Governance Structure;
- (3) note the Head of Internal Audit's overall opinion 2016/17.

198. Exclusion of the Press and Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
11.	Corporate Risk Register	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

199. Information Report - Corporate Risk Register

The Committee received a report on the Council's 2017/18 Quarter 1 Corporate Risk Register to assist the Committee in monitoring progress on risk management.

A Member's raised his concern about the lack of progress on the affordable homes target (Corporate Risk No.3), particularly in relation to the significance of this area of work. It was confirmed that this would be addressed in the Quarter 2 report.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 8.42 pm).

(Signed) COUNCILLOR ANTONIO WEISS
Chair

**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT
AND STANDARDS
COMMITTEE**

Date of Meeting:	6 December 2017
Subject:	Treasury Management Strategy Statement and Annual Investment Strategy: Mid-year Review 2017-18
Key Decision:	No
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Decision subject to Call-in:	No
Wards affected:	All
Enclosures:	Appendix A – Economic and Interest Rates Update

Section 1 – Summary and Recommendations

Summary

This report sets out the mid-year review of treasury management activities for 2017-18.

Recommendation

GARMS Committee is requested to note the Treasury Management Mid-Year review for 2017-18.

Reasons

- (a) To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003, other relevant guidance and the Council's Financial Regulations.
- (b) To keep Members informed of Treasury Management activities and performance.

Section 2 – Report

Introduction

1. This report deals with treasury management activity which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Options considered

2. The consideration of this report is a requirement of the CIPFA "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)" [The Treasury Management Code]

Background

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines Treasury Management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council has adopted this definition.

4. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.
5. The first main function of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. In line with the Treasury Management Strategy Statement surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
6. The second main function of the Treasury Management service is the funding of the Council's capital programme. This programme provides a guide to the borrowing need of the Council, essentially the longer term cashflow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.
7. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' "The Prudential Code for Capital Finance in Local Authorities (2011 Edition)" [The Prudential Code] and the Treasury Management Code to set Treasury and Prudential Indicators for the next three years to ensure that the Council's capital investment programme is affordable, prudent and sustainable.
8. The CIPFA Treasury Management Code has been adopted by the Council.
9. The primary requirements of the Treasury Management Code are as follows:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the full Council or Cabinet of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is Governance, Audit, Risk Management and Standards Committee.

10. The purpose of this report is specifically to meet one of the above requirements, namely the mid-year report of Treasury Management activities for financial year 2017/18. The report details progress during the year against the Strategy approved by Council on 16 February 2017. The report covers the following:

- Treasury position as at 30 September 2017 including investment portfolio and borrowing portfolio (paragraphs 11-23);
- Economic and interest rates update (paragraph 24 and Appendix A);
- Compliance with Prudential Indicators (paragraphs 25-34);
- Local HRA indicators (paragraphs 35-36)
- Additional investment opportunities (paragraphs 37-43)

Treasury Position as at 30 September 2017

11. The Council's borrowings and investment (cash balances) position as at 30 September 2017 is detailed below:

Table 1: Outstanding Investments and Borrowings

	As at 30 September 2017			As at 31 March 2017		
	Principal £m	Average Rate %	Average Life	Principal £m	Average Rate %	Average Life
Total Investments	53.43	0.11	2 Days	65.13	0.59	11 days
Total Borrowing						
Public Works Loan Board	218.5	4.09	33.7 Years	218.5	4.09	34.2 Years
Market Loans	105.8	4.23	37.8 Years	115.8	4.53	35.2 Years
Total	324.3	4.13	35.0 Years	334.3	4.24	34.5 Years

The above analysis assumes loans structured as Lender Option, Borrower Option loans (LOBOs) mature at the end of the contractual period. If the first date at which the lender can reset interest rates is used as the maturity date, the average life for market loans would be 14.4 years and, for the whole debt portfolio, 27.4 years. LOBOs are discussed further in paragraph 20.

Review of Investment Portfolio

12. The Council remains a cautious investor placing security and liquidity considerations ahead of income generation. With Bank Rate at 30th September still at 0.25% it is impossible, at comparable risk levels, to invest at interest rates commonly seen in previous decades. During the first half of the year the rate on offer for instant access investments has been 0.01% (RBS), for investments of three months (Lloyds plc) 0.22% and for period of one year (Lloyds) 0.65%. Rates on investment returns have increased marginally since the increase in base rate to 0.50%.

With balances reducing and the demands of the capital programme it has not been appropriate to commit investments to periods beyond three

months with a consequent effect on rates realised. Additionally, the maturity of some relatively high-earning investments has had the effect of reducing both the average interest rate being received and the average life of the investments

13. The Council held £53.4m of investments as at 30 September 2017 compared with £65.1m at 31 March 2017. The investment portfolio yield for the first six months of the year is 0.11% against the average three months LIBOR of 0.30%. The reduction in investments is due primarily to the investments in the capital programme and the repayment of three loans maturing in June 2017. The Council's investment income budget is £1.4m and the forecast outturn is an unfavourable balance of £1.3m due to the combination of the reduction in the cash balances and low yields.
14. The only counterparties actively in use during the period have been Lloyds, Royal Bank of Scotland PLC and Svenska Handelsbanken.
15. The performance of the investment portfolio is benchmarked on a quarterly basis by the Treasury Management Adviser both against their risk adjusted model and the returns from other local authorities. As at 30 September 2017, the average yield on the portfolio of 0.11%
16. In addition to the investment of cash balances, the Council, at its meeting in July 2013, approved a loan of £15m to West London Waste Authority to help finance the cost of a new energy from waste plant. The term of the loan is 25 years at an interest rate of 7.604% on a reducing balance. The loan balance at the end of March 2017 is £16.4m which includes interest accrued to date. As the Waste Plant went live in December 2016 WLWA are now repaying the loan with Interest as agreed. There is a remaining facility of £0.25m from the original £15m loan that can be drawn down if required for any further work. For the financial year 2017/18, the outturn forecast on the interest accrued is £1.3m which is included as part of the investment income budget of £1.4m.
17. The table below sets out the counterparty position as at 30 September 2017.

Table 2: Investment Balances

	2016/17				2017/18	
	Sep-16		Mar-17		Sep-17	
	£m	%	£m	%	£m	%
Specified Investments						
Banks & Building Societies	14.8	19.0	11.3	17.3	11.3	21.1
Money Market Funds	1.6	2.0	1.6	2.4	1.6	3.0
Non –Specified Investments						
Banks & Building Societies	61.3	78.8	52.1	80.1	40.4	75.7
Enhanced Money Market Funds	0.2	0.2	0.1	0.2	0.1	0.2
Total	77.9	100.0	65.1	100.0	53.4	100.0

18. At its meeting in November 2014 the Council approved HB Public Law Ltd. which is wholly owned by the Council to be added to the counterparty list. The Council has approved a start-up loan of £100,000 for three years. As at

30th September the balance outstanding is £21,145.29 which is due to be repaid in April 2018. The Council has approved a start-up loan of £274,000 for three years to Concilium Business Services limited which is wholly owned by the Council. As at the 30th September 2017 there have been drawdowns totalling £255,000.

Review of Borrowing Portfolio

19. At 30 September 2017 the Council held £324.3m of external borrowing a reduction of £10m compared to 31 March 2017. This was due to the repayment of three loans maturing during June 2017. It is currently expected that borrowing of £M TBC will be required before the end of the financial year.
20. Within this total is a sum of £50.8m borrowed during the period December 2007 to March 2010 under LOBO structures with maturities between 2060 and 2078. In exchange for an interest rate that was below that offered on long term debt by the PWLB, the lender has the option at the end of five years (and yearly or half yearly thereafter) to reset the interest rate. If the rate of interest changes, the Council is permitted to repay the loan at no additional cost. One of the loans arranged was with RBS in the sum of £20m at an interest rate of 3.50% with a maturity date of 2050. On 10 August 2017 RBS advised that they were forgoing their option to change the interest rate making this a fixed term loan until maturity. However they also then advised they were transferring the loan to a 3rd Party (Phoenix Life Assurance Ltd) for the remainder of the loan period. In future analysis of outstanding debt, including table 1 above and 3 below, this borrowing will be analysed as a fixed term loan at a fixed rate.
21. The table below analyses the maturity profile of borrowing.

Table 3: Borrowing Maturity Profile

Maturity structure of borrowing	upper limit %	lower limit %	LOBO final maturity		LOBO interest reset date	
			£m	%	£m	%
under 12 months	30	0	22.0	6	72.8	22
12 months and within 24 mths	20	0	0.0	0	0.0	0
24 months and within 5 years	30	0	5.0	2	5.0	2
5 years and within 10 years	40	0	5.0	2	5.0	2
10 years and above	90	30	292.3	90	241.5	74
Total			324.3	100.0	324.3	100.0

22. The average borrowing rate is 4.2% and the forecast outturn on borrowing cost is £7.5m, below the budget of £8.1m. External borrowing will not be taken until the last quarter and temporary borrowing will be used if required.
23. Debt rescheduling opportunities have been very limited in the current economic climate given the structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. A detailed review of the possibilities for rescheduling was discussed with the Treasury Management Adviser in July 2017 who advised that in a period of such low interest rates there are

no financial advantages available which could be recommended for acceptance. No debt rescheduling was undertaken during the first six months of the year.

Economic and Interest Rates Updates

24. An economic update for the first part of the 2017/18 financial year along with the interest rate forecast and commentary provided by Capita as at 30th September 2017 is included as Appendix A.

Compliance with Prudential Indicators

Capital Expenditure and Funding

25. The Council's capital expenditure programme is the key driver of Treasury Management activity. The output of the capital expenditure programme is reflected in the statutory prudential indicators, which are designed to assist Members' overview and confirm the capital expenditure programme. The table below summarises the capital expenditure and funding for the current financial year and gives an indication of future levels of investment.

Table 4: Capital Expenditure

	2016/17	2017/18	2017/18
	Actual	Estimate	Forecast
	£'000	£'000	£'000
Expenditure			
Non - HRA	67,692	80,095	91,958
HRA	11,603	15,238	15,887
Regeneration	10,456	46,130	16,857
TOTAL	89,751	141,463	124,702
Funding:-			
Grants	22,208	15,108	22,832
Capital receipts	3,013	2,563	0
Revenue financing	7,287	10,278	14,406
Section 106 / Section 20	1,656	221	1,608
TOTAL	34,164	28,170	38,846
Net financing need for the year	55,587	113,293	85,856

26. The increase in the expenditure on the capital programme is due primarily to the carry forward of slippage from 2016/17. This has an impact on the annual change in capital financing requirement and net borrowing requirement as detailed in tables below. The revised forecast reflects the rephrasing of regeneration programme spend into future years.

Capital Financing Requirement (CFR)

27. The CFR as set out in Table 5, is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which has not immediately been paid for, will increase the CFR.

Table 5: Capital Financing Requirement

	2016/17	2017/18	2017/18
	Actual	Estimate	Forecast
	£'000	£'000	£'000
CFR as at 31 March			
Non – HRA	303,652	413,029	385,592
HRA	149,537	154,701	154,779
TOTAL	453,189	567,730	540,371
Annual change in CFR			
Non – HRA	40,110	109,377	81,940
HRA	-	5,164	5,242
TOTAL	40,110	114,541	87,182

28. Debt outstanding, including that arising from PFI and leasing schemes, should not normally exceed the CFR. As the Council has funded a substantial amount of capital expenditure from revenue resources, as shown in Table 6 below, current forecast gross debt of £349m is well below the CFR of £479m.

Table 6: Changes to Gross Debt

	2016/17	2017/18	2017/18
		Original	Revised
	£m	£m	£m
Authorised Limit for external debt			
Borrowing and finance leases	469	568	568
Operational Boundary for external debt			
Borrowing	334	448	448
Other long term liabilities	16	15	15
Total	350	463	463
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing	334	448	448
Upper limit for variable rate exposure			
Net principal re variable rate borrowing	-	-	-
Upper limit for principal sums invested over 364 days*	60	60	60

29. The table below shows the net borrowing after investment balances are taken into account.

Table 7: Net Borrowing

Net Borrowing			
	2016/17	2017/18	2017/18
	Actual	Estimate	Forecast
	£'000	£'000	Outturn
	£'000	£'000	£'000
Brought forward 1 April	258,201	269,305	269,305
Carried forward 31 March	269,305	418,975	391,616
Change in net borrowing	11,104	149,670	122,311

No external borrowing has been taken in the financial year to date by using internal borrowing; reducing cash balances. When cash balances fall below £30m, then temporary borrowing will be taken, to minimise borrowing costs, to be replaced by PWLB borrowing if longer term rates rise from the current low levels which are currently below 3%.

Operational Boundary and Authorised Limit

30. Operational Boundary – This limit is based on the Council’s programme for capital expenditure, capital financing requirement and cash flow requirements for the year.
31. Authorised Limit – This represents a limit beyond which external debt is prohibited. The Council’s policy is to set this rate at the Capital Financing Requirement. The Government retains an option to control either the total of all councils’ programmes, or those of a specific council, although this power has not yet been exercised.

Table 8: Boundaries

	2016/17	2017/18	2017/18
		Original	Revised
	£m	£m	£m
Authorised Limit for external debt			
Borrowing and finance leases	469	568	568
Operational Boundary for external debt			
Borrowing	334	448	448
Other long term liabilities	16	15	15
Total	350	463	463
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing	334	448	448
Upper limit for variable rate exposure			
Net principal re variable rate borrowing	-	-	-
Upper limit for principal sums invested over 364 days*	60	60	60

Affordability Indicators

32. Ratio of Financing Costs to Net Revenue Streams – This indicator identifies the trend in the cost of capital (borrowing, depreciation, impairment and other long term obligation costs net of investment income) against the net revenue stream. Tables 9 and 10 on next page show the current position for the General Fund and HRA respectively.

Table 9: Ratio of Financing Costs to Net Revenue Stream – General Fund

	2016/17	2017/18	2017/18
	Actual	Estimate	Forecast Outturn
Net revenue stream (£'000)	173,392	164,804	167,278
Interest costs (£'000)	7,910	8,212	7,517
Interest costs - finance leases (£'000)	2,100	1,700	1,700
Interest and investment income (£'000)	-1,332	-1,300	-1,300
MRP (£'000)	14,000	14,866	14,866
Total financing costs (£'000)	22,678	23,478	22,783
Ratio of total financing costs against net revenue stream (%)	13.1	14.2	13.6

The ratio shows a small reduction between 2015/16 and 2016/17 which suggests that the capital programme remains affordable.

Table 10: Ratio of Financing Costs to Gross Revenue Stream HRA

	2016/17	2017/18	2017/18
	Actual	Estimate	Forecast Outturn
Gross revenue stream (£'000)	32,280	32,056	32,124
Interest costs of self-funding borrowing (£'000)	-3,751	-3,751	-3,751
Interest costs of other borrowing (£'000)	-2,643	-2,764	-2,701
Interest and investment income (£'000)	35	52	21
Depreciation (£'000)	-7,559	-7,314	-7,388
Impairment (£'000)	0	0	0
Total financing costs (£'000)	-13,918	-13,777	-13,819
Ratio of total financing costs against net revenue stream (%)	-43.1	-43.0	-43.0
Ratio of total financing costs (excluding depreciation and impairment) against net revenue stream (%)	-19.7	-20.2	-20.0

33. Incremental impact of Capital Investment Decisions on Council Tax and Housing Rents – This indicator identifies the revenue costs associated with proposed changes to the capital programme and the impact on Council Tax and Housing Rents.
34. The tables below identify the revenue costs associated with the proposed capital programme and the impact on Council Tax and housing rents.

Table 11: Incremental Impact of Capital Investment Decisions – Council Tax

	Actual	Estimate	Forecast Outturn
Net financing need (£'000)	74,776	67,163	68,999
Borrowing at 25-50 years PWLB rate (£'000)	1,645	2,040	2,001
MRP (2%) (£'000)	1,496	1,343	1,380
Total increased costs (£'000)	3,141	3,383	3,381
CTax base (£'000)	82,000	83,500	83,500
% increase	3.8	4.1	4.0
Band D Council Tax	1,560	1,560	1,560
Overall increase £ pa	59.75	63.21	63.17

Table 12: Incremental Impact of Capital Investment Decisions – Housing Rents

	2016/17	2017/18	2017/18
	Actual	Estimate	Forecast Outturn
Net Financing need (£'000)	5,306.0	2,160	5,242
Borrowing @ 2% (25-50years PWLB rate) (£'000)	106.1	43.2	104.8
Depreciation @ 2% (£'000)	106	43	105
Total increased costs	212	86	210
Number of dwellings	4,839	4,818	4,824
Increase in average housing rent per week £	0.84	0.34	0.84

Local HRA indicators

35. The ratio of gross revenue stream to debt shows a consistent pattern which is affordable by the HRA. As the number of dwellings reduces over the two years, the debt outstanding per dwelling is estimated to increase. However, the annual increases are only marginal and the ratio compared to the average value of each dwelling is low enough for the measure to raise no concern.

Table 13: Local HRA Indicators

	2016/17	2017/18	2017/18
	Actual	Estimate	Forecast Outturn
Debt (CFR) (£m)	149,537	154,701	154,779
Gross Revenue Stream (£m)	32,280	32,056	32,124
Ratio of Gross Revenue Stream to Debt (%)	22%	21%	21%
Average Number of Dwellings	4,846	4,818	4,825
Debt outstanding per dwelling (£)	30,858	32,112	32,079

36. HRA Debt Limit is shown in the table below

Table 14: HRA Debt

	2016/17	2017/18	2017/18
	Actual	Estimate	Forecast Outturn
	£m	£m	£m
HRA Debt Limit	154.84	154.84	154.84
HRA CFR	149.54	154.70	154.78
Headroom	5.31	0.14	0.06

Additional investment opportunities

37. As discussed in paragraph 12 above interest rates available from institutions on the Council's counterparty list and beyond are at historically very low levels and the Council is earning, overall, under 0.25% on its cash balances. Advice available to the Council suggests that returns are likely to remain low .

38. Notwithstanding this both officers and Members have expressed concern over the poor rates available and officers keep the counterparty list under review and opportunities to potentially realise better returns are investigated.

39. Regular meetings are held with the Treasury Management Adviser and they are always asked to update officers on investment opportunities which might be available. Vehicles discussed include gilts, European Investment Bank, money market funds, enhanced cash plus funds property funds and covered bonds. The Council has previously agreed to make direct investments of up to £20m in property but the other vehicles do not generally offer returns substantially in excess of those currently achieved.

Legal Implications

44. The purpose of this report is to comply with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and other relevant guidance referred to in the report.

Financial Implications

45. In addition to supporting the Council's revenue and Capital programmes the Treasury Management net budget of £6.0m (Interest payable £7.3m; Interest receivable £1.3m) discussed in paragraphs 16 and 22 is an important part of the General Fund budget. Any savings achieved, or overspends incurred have a direct impact on the delivery of the budget.

Risk Management Implications

46. The identification, monitoring and control of risk are central to the achievement of the Treasury Management objectives. Potential risks are included in the directorate risk register and are identified, mitigated and monitored in accordance with Treasury Management Practice notes approved by the Treasury Management Group.

Equalities Implications

47. There are no equalities implications arising from this report.

Corporate Priorities

48. This report deals with the Treasury Management activity which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 24 November 2017		
Name: Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 9 November 2017		

Ward Councillors notified:	NO as report impacts on all Wards
EqIA carried out:	NO
EqIA cleared by:	There are no equalities implications arising from this "information" report.

Section 4 - Contact Details and Background Papers

Contact: Iain Millar (Treasury and Pensions Manager)
Tel: 020-8424-1432 / Email: iain.millar@harrow.gov.uk

Background Papers: None

Appendix A

Provided by Capita Asset Services at 30 September 2017

Economics and interest rates

Economics update

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. . The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be

whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter 2 (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

USA. Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its \$4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest rate forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. Funds Rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

This page is intentionally left blank

**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT AND
STANDARDS COMMITTEE**

Date of Meeting: 6 December 2017

Subject: INFORMATION REPORT
Annual Audit Letter 2016/17

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Annual Audit Letter 2016/17

Section 1 – Summary and Recommendations

This report provides the Committee with an opportunity to consider the Annual Audit Letter from the Council's external auditors

Recommendation

The Committee is requested to note this report containing the Annual Audit Letter

Reason

The Accounts and Audit (England) Regulations 2015 requires the Committee to consider the Annual Audit Letter

Section 2 – Report

Background

- 1 The Council's External Auditors (KPMG LLP) have now completed the audit of the Statement of Accounts 2016/17. The appointed auditor writes to the Council on an annual basis through an Audit Letter summarising the important findings from their audit work.
- 2 The 2016/17 Annual Audit Letter is attached as an appendix to this report and covers the following matters:
 - The headlines – a summary of Value For Money (VFM) conclusion and risk areas; the Audit Opinion; the Financial Statements audit; other information accompanying the financial statements; the Pension Fund audit; Whole of Government Accounts (WGA); the certificate, and the audit fees
 - Appendix 1: Summary of reports issued
 - Appendix 2 : Audit Fees
- 3 The key conclusions emerging from the Auditor's work were:
 - The Council received an unqualified audit opinion and value for money conclusion.
 - The four recommendations referred to on page 4 of the Annual Audit Letter were considered by this Committee at it's meeting in September 2017 with one already implemented and the other three being worked upon during the second half of this financial year.
 - The Council still needs to generate savings, but also has additional demand led spending in Children's and Adults Services putting increased pressure on achieving a breakeven position. The Auditors recognise the additional controls that the Authority has put in place to mitigate these overspends and through discussions with the Director of Finance and Chief Executive recognise that tight control is being put on spending and savings.

Financial Implications

- 4 There are no direct financial implications arising from this report.

Risk Management Implications

- 5 The risks of not implementing the recommendations are not included in the corporate risk register. However the review of such recommendations is included as a separate task within the closure of accounts timetable for officers to ensure action has been taken. The external auditors (KPMG) will as part of their audit work, check that the Council has implemented the accepted recommendations from the previous years annual audit letter.

Equalities implications

- 6 There are no equalities implications.

Council Priorities

- 7 The Annual Audit Letter provides assurance that the Council has managed its finances and delivered value for money in accordance with Council's corporate vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert



Chief Financial Officer

Date: 22nd November 2017

Ward Councillors notified:

n/a

Section 4 - Contact Details and Background Papers

Contact: Paul Gower (Interim Technical Accounting Manager) Tel: 020-8424-1335 /
Email: paul.gower@harrow.gov.uk

Background Papers:

http://www.harrow.gov.uk/download/downloads/id/10450/annual_audit_letter_2016_17

This page is intentionally left blank



Annual Audit Letter 2016/17

35

The London Borough of Harrow

—

October 2017



Contents

36

The contacts at KPMG in connection with this report are:

Andrew Sayers
Partner
KPMG LLP (UK)

Tel: 07802975171
Andrew.sayers@kpmg.co.uk

Emma Larcombe
Senior Manager
KPMG LLP (UK)

Tel: 07920257310
Emma.larcombe@kpmg.co.uk

Page

Report sections

— Headlines

3

Appendices

1. Summary of reports issues
2. Audit fees

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Harrow in relation to the 2016/17 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

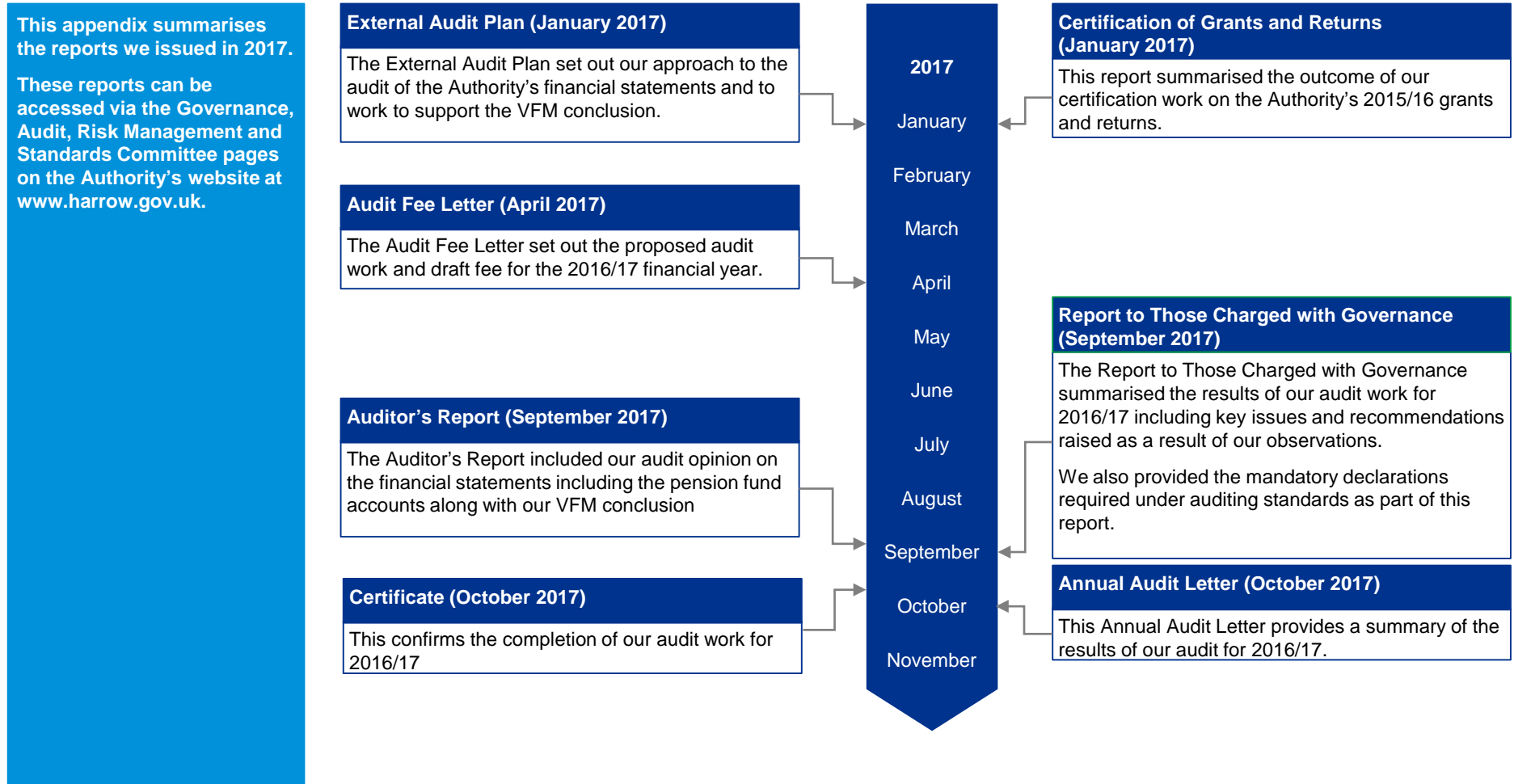
<p>VFM conclusion</p>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 29 September 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.</p> <p>The Authority has a number of challenges in order to continue to achieve a balance budget going forward. We consider the arrangements that the Authority has put in place to ensure that savings are identified, monitored and reported to be appropriate and we have seen the Authority increase its spending controls in 2017/18 in order to build up a reserve to meet known challenges for 2018/19. Members and Officers are aware of the challenges facing the Authority and are invested in achieving savings and looking for new ways of working and income streams.</p> <p>However, we note that the savings targets for 2017/18 are challenging alongside concerns about further demands on Children's and Adult services putting increased pressure on achieving breakeven position. We recognise the additional controls that the Authority has put in place to mitigate these overspends and through our discussions with the Director of Finance and Chief Executive recognise that tight control is being put on spending and savings.</p> <p>This is an area that we will continue to review closely throughout 2017/18 through our discussions with Management.</p>
<p>VFM risk areas</p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following matters:</p> <ul style="list-style-type: none"> — The Authority has significant savings targets with £83 million having to be achieved between the period 2015/16 to 2018/19. The Authority's net controllable revenue budget of £141m is the element of the budget that the Authority can exercise control over and from where the savings must be found. — We considered the level of reserves, whilst we note that the Authority's reserves are low in comparison to other London Borough's, the low level of reserves is within the Council's financial plan and is a conscious decision. — These savings need to be achieved in an environment where external Funding is decreasing and pressure on service is increasing. Recognising this, the Authority needs to ensure that it has robust financial planning arrangements in place. — We considered the budget setting and monitoring process, including how saving targets are monitored and reported. We reviewed a sample of specific savings targets and confirmed that there was adequate challenge and monitoring of the savings throughout the year. — We reviewed the spending control mechanisms put in place by the Authority to be reasonable and an appropriate step given the challenges faced.

We have issued our certificate to confirm the completion of our audit responsibilities for the 2016/17 audit year

Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 29 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.
Financial statements audit	<p>Our audit, identified a total of six audit adjustments, that required reporting, these had a total value of £32.7 million. Two of these were amended by Management and totalled £26.7 million. The largest of these adjustments was for £15.4m and related to the netting off of expenditure and income within the restated CIES, there was no impact on the outturn position as a result of this adjustment.</p> <p>The remaining four audit adjustments were not adjusted by management as they do not have a material impact on the financial statements. These uncorrected adjustments relate to PPE valuations being missed off the fixed asset register, the calculation of an impairment and the NNDR provision on appeals. We raised a total of four recommendations as part of our audit, all have been accepted by Management.</p>
Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension fund audit	There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
Certificate	We issued our certificate on 18 October 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.
Audit fee	Our fee for the Authority audit was £150,724 excluding VAT (£150,724 excluding VAT in 2015/16), our fee for the Pension Fund audit was £21,000 excluding VAT (£21,000 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by GARMS on 31 January 2017. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

39



Appendix 2: Audit fees

40

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our final fee for the 2016/17 audit of the London Borough of Harrow was £150,724, which is in line with the planned fee.

Our final fee for the 2016/17 audit of the Pension Fund was in line with the planned fee of £21,000.

Certification of grants and returns

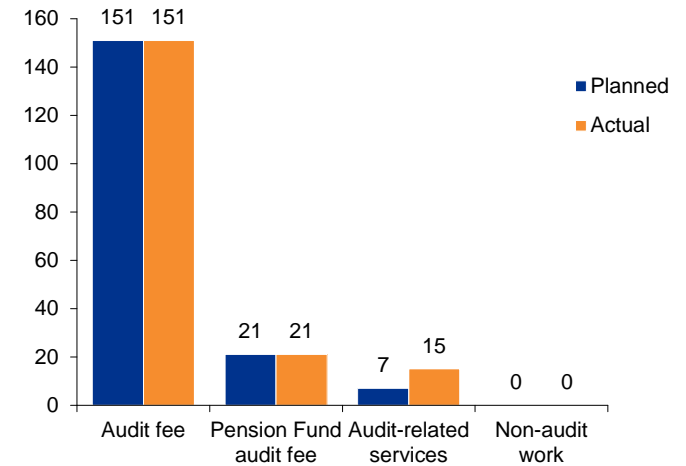
Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2018.

Other services

We charged £7,000 excluding VAT for additional audit-related services for the certification of the Pooling of Capital Receipts grant claim and the Teachers Pension return, which are outside of Public Sector Audit Appointment's certification regime.

In addition, we charged £8,000, excluding VAT in relation to our work in relation to an objection in 2014/15 that concluded in November 2016.

External audit fees 2016/17 (£'000)





kpmg.com/socialmedia



kpmg.com/app

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2017 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to ‘Regulatory Information’ at www.kpmg.com/uk

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

This page is intentionally left blank

**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT
AND STANDARDS
COMMITTEE**

Date of Meeting: 6 December 2017

Subject: **INFORMATION REPORT –
Internal Audit and Corporate
Anti-fraud Mid-Year Report and
Plan Update 2017/18**

Responsible Officer: Tom Whiting – Corporate Director
Resources and Commercial

Exempt: No

Enclosures: Appendix 1 – 2017/18 Internal Audit
Mid-Year Report + Quarter 3 & Plan
Update
Appendix 2 – IA Output Against Plan
Appendix 3 – Corporate Anti-fraud
Team Mid-Year Report + Quarter 3
Update
Appendix 4 – Fraud Referrals

Section 1 – Summary

This report sets out progress against the 2017/18 Internal Audit and Corporate Anti-fraud plans.

FOR INFORMATION

Section 2 – Report

Introduction

2.1. Annually the GARMS Committee considers a mid and full year Internal Audit and Corporate Anti-Fraud report covering progress against the agreed plans. This is the mid-year report for 2017/18 and also covers progress in Quarter 3 and an update on the Internal Audit annual plan.

Internal Audit Mid-year Results (Appendix 1 and 2)

2.2 In the first quarter of every financial year the work of the Internal Audit team concentrates on the authority's core financial systems. The systems are reviewed on a 3 year risk based cycle. Two of the 9 systems were reviewed in the first quarter of 2017/18 and control self-assessments were completed for the other 7 systems. Out of a total of 24 controls reviewed, 15 (63%) were fully operating, 7 (29%) were substantially operating and 2 (8%) were partially operating (Green Assurance).

2.3 Overall 2 (50%) of the Internal Audit performance indicators have been met or exceeded at mid-year. Performance target 1, 95% of recommendations made by Internal Audit agreed for implementation, has been exceeded by 5% and performance target 3, plan achieved for key control reviews, has been fully met.

2.4 For performance indicator 2 (follow up undertaken) 10 of 14 follow ups were issued however a conscious decision was taken to postpone the remaining four until October 2017 on the return to work (after maternity leave) of the Assistant Auditor responsible for follow-ups hence it is expected that the full year target will be met.

2.4 Overall 42% of the plan was completed at mid-year which is 3% lower than the target of 45% (performance indicator 4 – key indicator). This is due to resources being diverted to 3 emerging risks in Q2 of 2017/18 as well as the loss of the (interim) risk management resource, requiring Internal Audit resources to be diverted to update the risk register for Q1 & Q2. This is not expected to determinately effect the achievement of the plan at year-end.

2.5 The corporate performance indicator (implementation of recommendations) reflects the value added by Internal Audit to the organisation in terms of improved control and governance. The result for the corporate performance indicator shows that whilst 88% of recommendations had been implemented at the time of follow-up a further 12% are planned for implementation giving an expected implementation rate of 100% which exceeds the 90% target.

Internal Audit Quarter Three Update

2.6 Good progress has been made with planned work in Q3 (Appendix 1, Table 8) although work continues on 2 of the 3 emerging risks (Appendix 1, Table 10) impacting on the timing of some reviews.

Internal Audit 2017/18 Plan Update

- 2.7 The nature of risk based planning, as opposed to the more traditional cyclical planning, requires a more flexible approach to be taken to enable the Internal Audit service to address risks facing the Council as they change. Over the last few years this has resulted in changes being made to the plan at mid-year to recognise emerging risks. Three emerging risks reviews have been identified and started in Q2/Q3 that will require some changes to the current plan.
- 2.8 The Accounts and Audit Regulations 2015, require Local Authorities to prepare a Statement of Accounts in accordance with proper practices. The regulations also require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review (the AGS) with any published Statement of Accounts. In previous years the draft Statement of Accounts was required to be prepared by 30 June however from 2017/18 the deadline will be 31st May 2018. The consequence of this is that the annual review of governance will need to be started in Q4 2017/18 rather than undertaken in Q1 of 2018/19 requiring some changes to the current plan.
- 2.9 It is estimated that up to 89 audit days will be required for the review of emerging risks in the 2017/18 plan and to bring the annual review of governance forward into Q4 to compensate for this reviews equating to 90 audit days have identified as potential carry-forwards to 2018/19 (Appendix1, Table 9). Wherever possible reviews carried-forward will be those that due to service developments it is more appropriate to delay the review or where, with the agreement of management, the risk is not considered as high as any emerging risks. Consultation will be undertaken with management during December and an updated position presented at the next GARMS Committee meeting in January 2018.

CAFT 2016-17 Progress Against Plan (Appendix 3 and 4)

- 2.10 Of the 14 objectives in the CAFT Fraud Plan for 2017/18, 2 have been met (15%), 1 partially met (7%), 7 are on target (50%), 3 have not been met and are ongoing (21%) and 1 objective has not commenced (7%).
- 2.11 In terms of the Key Performance Indicators, 2 are being exceeded (40%), 1 is being met (20%) and 2 have not been met (40%). In terms of the indicators not being met the first one was involving just 1 investigation referral so the risk is minimal and the other indicator whilst being 20% under target, improvements have already been made in Q3 figures upping the figure 18% to illustrate that the indicator is back on track.
- 2.12 The fraud plan for the year contains actions that align closely to the Local Government Fraud and Corruption Strategy focusing on Acknowledging, Preventing and Pursuing fraud and corruption and the authorities' recently refreshed strategy on fraud and corruption will be reviewed again in Q4 to ensure it does not lose touch with what is happening on the fraud landscape.

- 2.13 In terms of acknowledging the risk of fraud and corruption and the harm that this can cause, the establishment of a fraud risk register by the end of the year will improve the way the authority manages its fraud risks and this will support fraud risk assessment so we improve resilience. This is one of the objectives on target along with the fraud risk assessment which has been met.
- 2.14 In relation to preventing, detecting and deterring fraud and corruption, there have been a number of positive outcomes to date this year in terms of raising awareness of fraud and the e-learning once launched will further develop this stream. Awareness sessions have been delivered to members and front line services alike and the fraud risk workshops are enabling managers to network with colleagues across the authority to share ideas and best practice on improving fraud risk controls.
- 2.15 Progress has been steady on the National Fraud Initiative work. The team will provide greater support and advice to service areas in Q3 and Q4 to push high risk matches along. The team continues to work closely with enforcement partners across London and wider where required and they were involved in the development up of a pilot involving the Home Office Immigration Enforcement Directorate and Children's Services where the authority now has the benefit of an embedded immigration officer working at the authority two days per week.
- 2.16 In terms of pursuing fraud and corruption once identified, there has been some really positive partnership working with housing needs, housing management, leasehold services, social care and revenues and benefits ensuring that those committing fraud are stopped and punitive action taken to recover any losses.
- 2.17 In terms of the value of fraud and corruption value identified during 2017-18 at the mid-year year point that can be measured, this amounts to £1.47 million, which represents almost a 6:1 return on investment for the teams running costs.

CAFT 2017-18 Q3 Fraud Plan Progress Update

- 2.18 Progress against the Fraud Plan is progressing well in Q3. In terms of acknowledging and preventing, detecting and deterring fraud and corruption, the fraud risk workshops have continued and the Resources Directorate workshops are now complete and the findings are being put into a fraud risk register for review by managers. Further workshops are now in planning for the People and Community Directorates to be concluded before year end.
- 2.19 Further fraud awareness workshops have been run for housing officers and a programme of joint Internal Audit/CAFT fraud risk workshops has commenced with a number of Harrow Schools identifying fraud risks, capturing existing controls and highlighting further actions to increase the schools resilience to manage fraud and corruption risks.

2.20 In terms of pursuing fraud and corruption in Q3 to date, two Council properties have been recovered, three Right to Buy applications rejected, two housing applications intercepted and a number of other positive outcomes resulting in financial savings amounting to circa £587,000 which in addition that what has been identified in Q1 & Q2 amounts to a total in excess of £2 million to date.

Section 3 – Further Information

3.1 The next report on the performance of the Internal Audit and CAFT will be the 2017/18 Year-End Report to be submitted to GARMS Committee in July 2018.

Section 4 – Financial Implications

4.1 There are no financial implications to this report.

Section 5 - Equalities implications

5.1 There are no equalities implications.

Section 6 – Corporate Priorities

6.1 Internal Audit contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Name: Dawn Calvert



Chief Financial Officer

Date: 23/11/17

Section 7 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit & Corporate Anti-Fraud, Tel: 0208 424 1420

Background Papers: None

This page is intentionally left blank

**2017/18 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE**

APPENDIX 1

KEY

RED assurance = 0-50% controls operating/substantially operating

RED/AMBER assurance = 51-60% controls operating/substantially operating

AMBER assurance = 61-70% controls operating/substantially operating

AMBER/GREEN assurance = 71-80% controls operating/substantially operating

GREEN assurance = 81-100% controls operating/substantially operating

Report ratings may be downgraded (D) depending on the number of high risk recommendations made (with the agreement of the Head of Internal Audit)

Mid-year Results

- Table 1 below details the follow ups completed in 2017/18 with the original assurance rating and the re-assessed assurance rating. All assurance ratings at follow-up have been re-assessed as amber/green or green showing improvement in the control environment as a result of internal audit work.

49

Table 1 – Follow Ups completed in Q1&2 of 2017/18

Review	Audit Coverage	Original Assurance Rating	1st Follow Up Assurance Rating		2nd Follow Up Assurance Rating
Planning Enforcement Investigation – 2 nd Follow Up	Investigation into allegations of bribery and corruption for which there was insufficient evidence. However weaknesses in control were identified.	RED 16 Recommendations	RED 38% Implemented	AMBER 19% Substantially	GREEN 88% Implemented

**2017/18 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE**

APPENDIX 1

2. Table 2 below details all the reports issued in Q1/Q2 of 2017/18 from the 2016/17 audit plan with the report assurance rating.

Table 2 – 2016/17 Plan Reports Issued in Q1&2 of 2017/18

Review	Audit Coverage	Assurance Rating		Follow-up Due
HBPL Service Charging +HBPL Ltd Governance	To review the governance arrangements for the HBPL Ltd and the charging arrangements for the HBPL Service.	AMBER 69% O	GREEN 9% SO	January 2018
NRPF	To ensure timely identification and assessment of NRPF cases enabling the allocation of only appropriate funds that are fully accountable.	RED 20% O	AMBER 40% SO	In progress

3. Table 3 below details the completed assurance report reviews issued in Q1/Q2 of 2017/18 from the 2017/18 Plan and the assurance rating.

Table 3 – 2017/18 Plan Completed Assurance Report Reviews in Q1/Q2 of 2017/18

Review	Audit Coverage	Assurance Rating		Follow-up Due
NNDR	Key control review	AMBER 88% O	GREEN 8% SO (D)	In draft
Capital Expenditure	Key control review	GREEN 65%O 26% SO		In draft
Welldon Park Primary School Governance and Financial Controls Review	Review the adequacy, application and effectiveness of the systems in place to control schools delegated and standards fund budget and to assess the level of compliance with FR and CPR.	RED 34% O	AMBER 29% SO (D)	In draft
Welldon Park Primary School Teaching Assistants Report (Emerging Risk)	To investigate the payments to Teaching Assistants for providing cover for teachers and the methods of payments both historic and pending.	RED		In draft

**2017/18 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE**

APPENDIX 1

Review	Audit Coverage	Assurance Rating	Follow-up Due
100 Homes	To provide assurance that properties have been purchased in accordance with the agreed model, that probity can be demonstrated and that benefits of the project in terms of savings are being realised.	N/A	Interim report

4. Table 4 below details the completed assurance non report reviews undertaken in Q1/Q2 of 2017/18 from the 2017/18 Plan.

Table 4 – 2016/17 Plan Completed Assurance Non Report Reviews/work in Q1/Q2 of 2016/17

Review	Audit Coverage	Comments
Housing Rents	Self assessment	GREEN assurance
Corporate Accounts Payable (CAP)	Self assessment	GREEN assurance
Corporate Accounts Receivable (CAR)	Self assessment	GREEN assurance
Payroll	Self assessment	GREEN assurance
Treasury Management	Self assessment	GREEN assurance
Housing Benefits	Self assessment	GREEN assurance
Council Tax	Self assessment	GREEN assurance
Corporate Governance	Annual governance review, drafting AGS, AGS Action Plan	Complete to end of Q2
Information Governance Board (IGB)	To ensure that the Council has effective policies & management arrangements covering Information governance	Complete to end of Q2
Risk Management	Q1 (2017/18) & Q2 (2017/18) update of Corporate Risk Register	Complete to end of Q2
Families First Grant	Testing and Grant certification	Complete to end of Q2
Suspected Financial Irregularities + Control Reviews	Various – HB New Claims Fraud (See table 7 for further information)	Complete to end of Q2
Professional Advice	Advice on risk mitigation & control	Complete to end of Q2
Liaison with External Audit	On-going liaison throughout the year	Complete to end of Q2

**2017/18 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE**

APPENDIX 1

Internal Audit Performance Indicators

5. Table 5 below outlines the four Internal Audit indicators agreed for the year, including the key indicator covering achievement of the IA annual plan. These indicators cover performance on projects from the 2016/17 plan and the 2017/18 plan issued in the first half of the year (i.e. up to 30/09/17).

Table 5 – Internal Audit Performance Indicator Results

	Performance Indicator	Target	Mid Year Result
1	Recommendations agreed for implementation	95%	100%
2	Follow up undertaken	100%	71%
3	Plan achieved for key control reviews	100%	100%
4	Plan achieved overall (key indicator)	45%	42%

52

Analysis of Results

6. Overall 2 (50%) of the performance targets have been met or exceeded. One (25%) of the performance targets has been exceeded and 1 (25%) has been fully met.
7. Two (50%) of the targets were not met. Target 2, follow up undertaken – 10 of 14 follow ups were issued, a conscious decision was taken to postpone the remaining four until October 2017 on the return to work (after maternity leave) of the Assistant Auditor responsible for follow-ups hence it is expected that the full year target will be met. These have now all been sent to the clients. Target 4, plan achieved overall is down 3% at mid-year – this is due to the impact of 3 new emerging risks during the first half of 2017/18 (as shown in table 10) and the loss of the temporary risk management resource requiring Internal Audit resources to be diverted to update the Corporate Risk Register for Q1&2.

**2017/18 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE**

APPENDIX 1

Corporate Performance Indicators Results

8. One key corporate indicator will be reported on for 2017/18 as shown below in Table 6:

Table 6 – Corporate Performance Indicator Results

	Performance Indicator	Target	Mid Year Result
1	Implementation of recommendations	90%	88%

9. The result for performance indicator 1 shows that whilst 88% of recommendations had been implemented at the time of follow-up a further 12% are in progress of being implemented giving an expected implementation rate of 100% exceeding the 90% target.

Quarter 3 Update

10. Table 7 below details the reviews completed in Q3 2017/18.

Table 7 – 2016/17 & 2017/18 Plan Completed Assurance Report Reviews in Q3 of 2017/18

Review	Audit Coverage	ASSURANCE RATING		Follow-up Due
NNDR	Key control review	AMBER 88% O	GREEN 8% SO (D)	February 2018
Capital Expenditure	Key control review	GREEN 65%O 26% SO		January 2018
Help2Let	To review the adequacy and application of controls in place for the Help2Let Scheme to minimise the risk of fraud.	RED 38% O	AMBER 19% SO	January 2018
Emergency / Temporary Accommodation	To review adequacy and application of controls in place for applicants in emergency / temporary accommodation to minimise the risk of fraud.	AMBER 63% O	GREEN 11% SO	April 2018

**2017/18 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE**

APPENDIX 1

Review	Audit Coverage	ASSURANCE RATING		Follow-up Due
Housing Benefit Fraud Risk – Revised Report	To learn lessons from the current fraud case by reviewing controls in place to specifically assess whether they are effective to minimise the risk of internal fraud.	RED 57%	AMBER 13% (D)	In draft
Housing Benefits New Claims SFI	Loss of £26,753 being investigated by DWP – claim form plus supporting evidence reviewed by IA to determine improvement in controls required – 7 recommendations made.	N/A – Briefing Note		In draft
IT Contract Management	To ensure that effective contract management is in place for the IT Contract with Sopra Steria (SSL), that services are obtained in accordance with the contract and that value for money is achieved.	AMBER 58% O	GREEN 29% SO (D)	May 2018
Headteacher – Manipulation of Data	Investigation into concerns raised regarding inflation of Free School Meal data, the recording of English as a second language, results of 2015 SATS, disposal of equipment, collection of charity monies, running of the Saturday School, 2 children attending the school whilst not on the school roll.	RED Assurance: There have been significant levels of data manipulation resulting in artificially inflated numbers in the census data for FSM, EAL and SEN. This has benefitted both the school and the former Headteacher personally in financial and reputational terms.		January 2018

**2017/18 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE**

APPENDIX 1

11. Table 8 below details the reviews in progress during Q3 2017/18

Table 8 –2017/18 Plan Reviews in Progress in Q3 of 2017/18

Review	Audit Coverage	Progress
Agency Staff - ID's/Right to Work/References	A review of the robustness of checks undertaken by Pertemps to prevent fraud	Fieldwork in progress
Contract Management	Per-temp's Contract or sample of medium contracts (to be determined by risk assessment)	Planning in progress
Commercialisation	A review to determine if the key aims and objectives of the Commercialisation Strategy are being met, that governance is adequate and lessons are learnt	Planning in progress
Financial Regulations	Feeding into the review and update of Financial; Regulations	In progress
Council Tax - Severely Mentally Impaired (SMI) Exemption	To review the application , assessment and review process	Fieldwork in progress
Schools Fraud risk (c/fwd from 16/17)	Raise the level of fraud risk awareness in schools through a workshop approach, in a sample of schools that helps schools to identify preventative and detective controls and how to refer any fraud for further investigation	Workshops in progress
Schools Landlord and Tenant Responsibilities (c/fwd from 16/17)	Scheme for Financing Schools sets out generic responsibilities but schools keeping maintenance up to date is a concern (e.g. issues with flooding)	Fieldwork in progress
Schools Pay Policy/ Performance Management processes	Review to cover Schools Pay Policy/ Performance Management processes and in particular approvals for Headteachers Pay increases (authority for increase, level of increase) and starting salary levels - from a fraud as well as an assurance perspective.	Fieldwork in progress
Schools Budget Management	Increased budget pressures and funding changes making it harder for schools to set and maintain balanced budgets. An emphasis on setting balance budgets and monitoring and taking suitable action to avoid a deficit. (The Helix Centre and Hillview Nursery).	In progress
Multi-Agency Safeguarding Hub (MASH)	Follow-up of external review undertaken in 2015/16 Deferred from 16/17 plan due to Ofsted	Fieldwork in progress

55

**2017/18 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE**

APPENDIX 1

Regeneration Programme	Procurement Process/ Financial Management/ Land Deals to be determined via a risk process in consultation with management c/f 16/17	Fieldwork complete
New Supplier Set Up	To review the new system to set up suppliers to ensure robust controls in place	Fieldwork complete
Business Rates on Empty properties + Small Business Rate Relief	A review of the robustness of controls in place to prevent fraud	Planning in progress
Personal Budgets	Financial Assessments, Monitoring/Recovery of Funds, Review of Care Packages	Planning in progress
Planning	A review of the planning process to ensure sound, timely and transparent decisions are made	Planning in progress

12. Table 9 below shows work on the 2017/18 Plan not yet started. A number of these will commence in Q3/4 as planned however a number will also be considered for c/f to 2018/19 to allow time for dealing with emerging risks (see Table 10) and an earlier review of Corporate Governance to meet new reporting deadlines. An update on proposed changes to the plan will be provided at the next GARMS Committee meeting.

56

Table 9 –2016/17 Plan Reviews to be undertaken in Q4 of 2016/17

Review	Audit Risk Rating	Quarter	Days in Plan	Comments
Cyber Security Response	M	Q1	10	PwC – earlier system review to be finalised before commencement possible c/f to 2018/19 as medium risk
Spending Controls	H	Q2	20	To be implemented by Finance before review can commence
Access Harrow - Supporting Documents	H	Q3	15	To be considered for c/f to 2018/19
Waste - Landfill, recycling, weighbridge	H	Q3	15	To be commenced Q3
Review of Expenditure	H	Q3	20	To be commenced Q3
Homelessness – preventative work	H	Q3	10	To be considered for c/f to 2018/19 as new regulations not yet in
Adult Residential Care	H	Q3	20	To be commenced Q3
Homelessness Data on Northgate	H	Q3/4	10	To be considered for c/f to 2018/19
Schools Financial Management System + Education Management System	H	Q4	10	To be commenced Q4

**2017/18 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE**

APPENDIX 1

School Funding	H	Q4	10	To be considered for c/f to 2018/19
Financial Regulations	H	Q4	10	To be considered for c/f to 2018/19 as new regs not yet drafted
Corporate Policies	M	Q4	5	To be considered for c/f to 2018/19 as medium risk
Culture	H	Q4	20	To be considered for c/f to 2018/19
FB60	H	Q4	5	To be commenced Q4
Facilities Management Contract	H	Q4	10	To be commenced Q4
Major Works - Leaseholders	H	Q4	15	To be commenced Q4
IGB	M	Q3/4	2.5	Ongoing throughout year
Families First	M	Q3/4	2.5	Ongoing throughout year
Risk Management	Requirement	Q3/4	35	Ongoing throughout year, temporary resources to be secured to cover work
Corporate Governance	Requirement	Q4	+30	Additional days required in plan due to changing reporting deadlines requiring annual review of governance to be undertaken in Q4 2017/18 instead of Q1 2018/19
Suspected Financial Irregularities + Control Reviews	n/a	Q1-Q4	20	Ongoing throughout year
Professional Advice	n/a	Q1-Q4	10	Ongoing throughout year
Liaison with External Audit	n/a	Q1-Q4	4	Ongoing throughout year

57

13. Table 10 below shows emerging risks to be reviewed as part of the 2017/18 plan

Table 10 – Emerging Risks to be reviewed as part of the 2017/18 Plan

Review	Reason Added
Parking Ticket Overpayments	Investigation of concerns raised by staff – Q2/3 ongoing
Harrow Arts Centre	Review agreed following SFI 2016/17 – Q3 ongoing
Welldon Park Primary School Teaching Assistants Report	To investigate the payments to Teaching Assistants for providing cover for teachers and the methods of payments both historic and pending. (See table 3 above) – Q2

14. This equates to 44 extra audit days to date with a further estimated 15 days totaling an extra 59 days in the 2017/18 plan.

Susan Dixon
Head of Internal Audit
21/11/17

This page is intentionally left blank

2017/18 Plan	Mid Year Position	Assurance Rating/Output	
Reliance/Assurance Reviews			
Business Rates	Complete - Draft	AMBER	GREEN
Capital Expenditure	Complete - Final	GREEN	
Housing Benefit (Fraud risk covered 2016/17)	Complete – Self-assessment	GREEN	
Housing Rents	Complete – Self-assessment	GREEN	
Corporate Accounts Receivable	Complete – Self-assessment	GREEN	
Corporate Accounts Payable	Complete – Self-assessment	GREEN	
Payroll	Complete – Self-assessment	GREEN	
Treasury	Complete – Self-assessment	GREEN	
Council Tax	Complete – Self-assessment	GREEN	
IT Reviews			
Cyber Security Response	Q1 - Delayed		
Schools Financial Management System + Education Management System	Q4		
Fraud Risk/Fraud Prevention			
Agency Staff - ID's/Right to Work/References	In progress		
Business Rates on Empty properties + Small Business Rate Relief	In progress		
Access Harrow - Supporting Documents	Q3		
Waste - Landfill, recycling, weighbridge	Q3		
School Funding	Q4		
Corporate Compliance Checks			
Spending Controls	Q2 - Delayed		
Financial Regulations	Q4		
Corporate Policies	Q4		
Corporate Risk Based Reviews			
Corporate Governance	Complete to end of Q2	Annual Governance Statement	
Shared Service Governance	Complete as part of AGS assurance	Annual Governance Statement	
Risk Management	Complete to end of Q2	Q1+Q2 Corporate Risk Registers	
Information Governance Board (IGB)	Complete to end of Q2		
Cabinet Decisions	To be integrated with other reviews		
Review of Expenditure	Q3		
Commercialisation	In progress		
Culture	Q4		
Directorate Risk Based Reviews			
Resources & Commercial			
Financial Regulations	In progress		
Contract Management	In progress		
Council Tax - Severely Mentally Impaired (SMI) Exemption	In progress		
FB60	Q4		
New Supplier Set Up	Fieldwork complete		
Community			
Homelessness Data on Northgate	Q3/4		
Facilities Management Contract	Q4		
Major Works - Leaseholders	Q4		
Homelessness – preventative work	Q3		
100 Homes Project	Interim report complete – originally Q3 but undertaken in Q1	Interim Report	
People			
Schools Fraud risk (c/fwd from 16/17)	In progress		
Schools Landlord and Tenant Responsibilities (c/fwd from 16/17)	In progress		

APPENDIX 2

Schools Pay Policy/ Performance Management processes	In progress	
Schools Budget Management	In progress	
Schools - Financial Audits (Governance & Financial Controls)	Welldon Park - Draft	RED AMBER
Welldon Park Teaching Assistants (Emerging Risk)	Complete – Draft	RED
SFVS Assurance Statement	Complete	Return to DfE
Families First (Troubled Families Grant)	Complete to end of Q2	Advice on process
Adult Residential Care	Q3	
Personal Budgets	Q3	
Multi-Agency Safeguarding Hub (MASH)	In progress	
Regeneration		
Regeneration Programme	Fieldwork complete	
Planning	Q3	
Support, Advice & Follow-up		
Suspected Financial Irregularities + Control Reviews	Complete to end of Q2	2 minor, 1 reportable see Appendix 1, Table 7
Professional Advice	Complete to end of Q2	Various incl. Legal IAA, Procurement, GDPR
Follow-up	71 % achieved (KPI 2)	10/14 issued
External Audit Liaison	Complete to end of Q2	

Summary

53 projects in the 2017/18 plan.

22 (42%) projects completed to draft report stage or where there is no report completed as expected at mid-year.

Appendix 3 – Corporate Anti-Fraud Team 2017-18 Mid-Year Report

61

	Fraud work stream	Target	2017-18 Mid-Year Progress update
	Objective: Acknowledge fraud and corruption risks, reaffirm the responsibility of the leadership team in managing these risks and assess the risk of fraud and corruption across all parts of the organisation.		
1	<p>Corporate fraud risk assessment</p> <p>Identify and assess Harrow's fraud risk exposure affecting the principle activities in order to fully understand changing patterns in fraud and corruption threats and the potential harmful consequences to the authority and our customers</p>	Q1	<p>Objective met</p> <p>The draft fraud plan for 17/18 was developed drawing on fraud risk information from reports such as Protecting the English Purse 2016 and the Annual Fraud Indicator 2016, the sharing of fraud information through partnerships well established in counter fraud networks and known fraud instances impacting the authority during 2016-17.</p> <p>The draft fraud plan was also shared with Corporate Directors and their Department Management Teams seeking feedback on the proposed plan before being approved by the committee.</p> <p>Nevertheless, given the ever changing fraud landscape the findings from the establishment of the fraud risk register will further support the on going risk assessment process to ensure that the organisation is fully aware of emerging significant fraud risks, is able to mitigate them and further protect itself with the implementation of additional fraud risk controls.</p>
2	<p>Corporate fraud risk register</p> <p>Develop a fraud risk register where significant fraud and corruption risks will be owned and maintained by the directorates</p>	Q2	<p>Objective not met and is ongoing</p> <p>The planning and preparation for the workshops including the follow up work was under estimated at the beginning of the year when the plan was drafted so the original completion deadline has now slipped from Q2 to Q4.</p> <p>A number of pilot workshops have taken place in Q1 & Q2 within the Resources Directorate involving :-</p> <ul style="list-style-type: none"> • Identification of the main fraud risks affecting the Resources Directorates • Assessing the inherent fraud risks • Capturing the controls to mitigate these risks • Reassessing the residual fraud risks • Identifying further actions to increase fraud risks resilience <p>Similar workshops are planned for the People and Community Directorates in Q3 and Q4.</p>

			Once all workshops have been undertaken and the findings placed into a fraud risk register, it will be presented to Corporate Strategy Board for comments and then presented to the Committee with recommendations as to how it should be managed, reviewed and put to best use by the authority to improve its fraud risk management.
3	<p>Corporate Anti-Fraud & Corruption Strategy</p> <p>Review the Corporate Anti Fraud & Corruption Strategy 2016-19 that links to Harrow's corporate priorities, the overall goal of improving resilience to fraud and corruption and fully reflecting the fraud and corruption risks faced by the authority</p>	Q4	<p>Objective not commenced</p> <p>The review of the strategy is scheduled to commence in Q4</p>
Objective: Prevent, detect and deter fraud and corruption impacting the organisation by raising awareness of fraud and corruption			
4	<p>National Fraud Initiative co-ordination role</p> <ul style="list-style-type: none"> • Co-ordination of the 2016/17 National Fraud Initiative (NFI) match processing including:- • Providing supporting and guidance to service areas processing matches • Providing guidance on whether a match is fraud or error. • Picking up any matches referred as fraud and investigating them to satisfactory outcome including corrective action 	Q1-4	<p>Objective on target</p> <p>The team acts in both a support role to service areas that are tasked with processing matches and picking up fraud referrals that are generated as a result of this work. In all areas, where there are matches that have not yet commenced or complete, the team is supporting the service area to prioritise the work on a risk basis and complete as soon as is practicably possible.</p> <p>A summary of service activity is as follows:-</p> <ul style="list-style-type: none"> • Blue badges – 487 total matches, 435 recommended matches. Work not commenced. • Creditors – 3909 total matches, 509 recommended matches. A 10% sample has been undertaken of the 509 matches identifying £10,420.33 of duplicate payments. Work complete • CTRS – 2503 total matches, 92 recommended matches, not yet processed. Work not commenced. • Housing tenants – 52 total matches, 35 recommended matches, 8 processed and 1 on going. Work on going.

- | | | |
|--|--|--|
| | | <ul style="list-style-type: none">• Insurance claims – 102 total matches, 5 recommended, 4 processed. Work is complete, no outcomes.• Personal budgets – 86 total matches, 12 recommended matches, not yet processed. Work not commenced.• Procurement – 118 total matches, 91 recommended matches, not yet processed. Work not commenced.• Pensions – 181 total matches, 92 recommended matches, 92 matches processed with overpayments identified amounting to £1863.91 (pension to a deceased individual). Work complete.• Payroll – 142 total matches, 63 recommended matches, 18 processed to date. Work on going• RTB – 13 total matches, 0 recommended matches, all processed (due to high fraud risk). Work complete.• Private Residential Care Homes – 19 total matches, 10 recommended matches, 19 processed, 1 cases resulting in a savings of £701.67. Work complete.• Residents parking permits – 5 total matches, 1 recommended, 1 processed resulting in a £70 saving. Work complete.• Waiting list – 2042 total matches, 1947 recommended, 70 processed, 10 in progress resulting in savings of £154,000 (partially explained in objective 8). Work on going |
|--|--|--|

5	<p>Corporate fraud awareness</p> <p>Raise awareness of fraud and corruption risks both within the authority and in the community through the publication of fraud successes in local and national media, including the use of all forms of social media including the following actions:-</p> <ul style="list-style-type: none"> • Rolling out fraud E-learning to new employees • Elected Member fraud awareness training • Raising fraud awareness in schools in conjunction with Internal Audit's annual programme of planned works • Chief Executive Newsletter articles on fraud and corruption • CAFT Hub/web pages refresh • Issuing management reports detailing investigation outcomes and recommendations for improving fraud risk controls are implemented if agreed according to risk 		<p>Objective partially met</p> <p>Q1 E-learning – not met Implementation has been held up due to IT issues and ensuring the e-package is scorm compliant with Harrows learning and development platform. It is envisaged that the training package will be ready for release to staff in Q4.</p> <p>Q2 Elected member training – not met A fraud awareness session was delivered to the Labour Group in July 2017 as the original date was rescheduled due to the election being called. A date to deliver the session to the Conservative Group is currently being sought after.</p> <p>Q1-4 Schools fraud awareness – on target A programme of fraud risk awareness sessions in a number of Harrow schools is scheduled to commence in Q3.</p> <p>Q1-4 Chief Executive Newsletter – on target An article featured in the newsletter in September 2017 detailing a successful prosecution that the team undertook against an individual that defrauded the help2let scheme.</p> <p>Q3 Web refresh – early completion The CAFT web pages were refreshed in Q2 to reflect current fraud trends and statistics</p> <p>Q1-4 Management reports issued – on target A number of management reports have been issued following the outcome of fraud investigations including recommendations to improve fraud risk controls in service areas. Greater detail on report numbers and recommendations agreed and implemented will be provided in the year end report.</p> <p>Fraud workshops – on target</p>
---	--	--	---

	<ul style="list-style-type: none"> • Fraud workshops/CAFT attendance at team meetings for high fraud risk areas • Publicity through all forms of media on successful fraud cases, fraud initiatives and related prosecution outcomes 	<p>Q1-4</p> <p>Q1-4</p>	<p>Three fraud awareness workshops have been delivered to teams in Adults and Children's Services. These workshops have taken place in addition to the workshops to establish the fraud risk register.</p> <p>General Publicity – on target</p> <p>An article on tenancy fraud featured in Homing In magazine in April 2017 about a tenant that was found to be residing in the US. She had tried to purchase her home through the RTB. This was intercepted and her tenancy recovered.</p> <p>A housing fraud pull up banner was placed in Access Harrow Reception between May – July 2017 encouraging members of the public to report tenancy fraud.</p> <p>An individual that defrauded the Council's help2let scheme and then vanished when the fraud was identified featured in The Harrow Times and other local publications. He was successfully prosecuted when arrested at the border re-entering the UK.</p>
6	<p>Fraud liaison</p> <p>Develop and maintain effective liaison with investigation teams in other boroughs and external agencies and ensure that membership and interest continues in the London Borough of Fraud Investigators Group (LBFIG), The National Anti-Fraud Network (NAFN), the European Institute for Combatting Corruption & Fraud (TEICCAF), The Chartered Institute of Public Finance and Accountancy (CIPFA) and the London Fraud Hub</p>	<p>Q1-4</p>	<p>Objective on target</p> <p>The authority has retained its membership of the National Anti Fraud Network (NAFN) for its essential role in intelligence gathering and the London Borough of Fraud Investigators Group (LBFIG). NAFN is an essential conduit for accessing 3rd party information sources which is vital for supporting investigation work.</p> <p>Officers in the team have also attended a number of Counter Fraud Conferences during the year which is important to keep abreast of current fraud trends and emerging fraud risks.</p> <p>Established partnerships with the Border Force, HMRC, the Home Office, the Metropolitan Police and other enforcement agencies have proven beneficial to current investigation work.</p> <p>The team played an integral role in the creation and implementation of a pilot between the No Recourse to Public Funds Team (Children's Services) and the Home Office Immigration Enforcement Directorate with a part time Immigration Officer being embedded within Children's Services to support front line services in establishing customer's immigration status. The partnership commenced in July 2017 and has already generated savings in terms of the authority avoiding losses attributed to incorrect customer immigration status. The pilot is currently under review with a decision on extending due in the new year. (Refer to objective 10 also)</p>
7	<p>Internal datamatching</p> <p>Explore the use of the iDIS data matching tool linked to the CAFT fraud case</p>	<p>Q2</p>	<p>Objective met</p> <p>The team have explored utilising this tool by visiting other sites where the software has been used successfully and generated income/savings. There is potential for utilising this with</p>

	management system which has capability for matching large extracts of data against each other for the purposes of preventing and detecting fraud, corruption and error.		positive outcomes for the authority. A decision will be made in Q3 as to whether the team has sufficient capacity to run a fraud campaign using the data matching tool or whether it is more practical to build it into the fraud plan for 2018/19.
Objective: Ensure the investigation of allegations of fraud and corruption are effective, criminal conduct is punished with appropriate sanctions, established losses are pursued robustly and fraud loss avoidance is measured effectively where possible			
8	<p>Housing fraud</p> <p>Assess and investigate allegations of fraud and abuse in the housing system working in partnership with Housing Resident Services, Housing Needs and Harrow's RSL's including:</p> <ul style="list-style-type: none"> Seek to recover 15 social housing units subject to fraud & misuse (KPI1) Prevent housing application fraud through targeted application validation with a fraud check on 90% applications referred to the CAFT and set live on the waiting list (KPI2) 	<p>Q1-4</p> <p>Q1-4</p>	<p>Objective on target</p> <p>Tenancy - exceeded Working in partnership with Housing Resident Services, 9 social housing tenancies have been recovered to date resulting in notional fraud savings to the authority amounting to £837,000.¹ In addition to this, in 1 possession case the authority was awarded £425.50 court costs. KPI1 target 15, achieved 9 to date (60% complete).</p> <p>To date in the team has received 32 housing tenancy referrals and at present has a caseload of 56 live tenancy investigations (including 7 housing association cases) at various stages of investigation.</p> <p>Housing Applications – on target Working in partnership with Housing Needs, 2 applications for housing have been intercepted following fraud validation checks. This has resulted in fraud loss avoidance savings of £81,000.² The CAFT are fraud validating each application that is set live on the Council's waiting list.</p> <p>In addition to this, a further 42 NFI data matching cases have been removed off the Councils' waiting list where 42 individuals had deceased (of which 4 were banded as A priority). This housekeeping work has resulted in notional savings of £148,000³</p> <p>A total of 9 housing application referrals have been received to date and 8 have undergone fraud validation checks before offers have been made, with 1 case still on going. KPI2 target 90%, achieved 89% (8/9 cases validated with a fraud check)</p>

¹ The notional value of tenancy recovery now estimated to have increased from £75,000 to £93,000 per unit according to the [Cabinet Office National Fraud Initiative Report 2016](#)

² Savings based on the likely sized properties the applicants would have been entitled to had they been successfully housed

³ NFI waiting list removal cases where 4 individuals were band A priority and bidding at the time of death (£72,000 saving) and 38 other individuals removed following housekeeping (£76,000 loss avoidance admin savings)

	<ul style="list-style-type: none"> Prevent fraudulent Right to Buy (RTB) applications through targeted application validation with a fraud check on 90% applications referred to the CAFT at offer stage (KPI3) Prevent mutual exchange, succession and assignment fraud through targeted application validation and working with the service area Prevent abuse of the housing incentivisation scheme through targeted application validation and working with the service area Maintain and develop membership of the London housing fraud hub and explore other datamatching opportunities Work with Housing and 	<p>Presently, 17 cases are live under investigation (some cases live prior to April 2017).</p> <p>Q1-4 RTB applications – on target</p> <p>Q1-4 Mutual exchange/succession/assignment – no referrals received</p> <p>Q1-4 Housing incentivisation scheme – on target</p> <p>Q1-4 Housing Fraud Hub – on target</p> <p>Q2-3 Housing fraud centric publicity campaign – on target</p>	<p>Working in partnerships with Leasehold Services, HB Public Law Services and Housing Residents Services, 3 RTB applications were intercepted saving the authority £314,700 in terms of purchase discounts losses prevented.⁴</p> <p>These are generally due to applicants failing anti money laundering checks (proving the source of funds) or following CAFT consultation with the lenders and the mortgage offer being withdrawn.</p> <p>The team is continuing to make use of the National Hunter system allowing the authority to communicate with lenders lawfully for the prevention and detection of crime.</p> <p>The team has received 21 RTB referrals to date. Currently there are 20 cases live under investigation.</p> <p>KPI3 target 90%, achieved 100%</p> <p>There have been no referrals to the team made in this area</p> <p>A grant to move amounting to £3,000 was rejected along with 2 help2let applications. The outcomes have been included in objective 12.</p> <p>The authority continues its membership of the hub and submits data on a monthly basis for matching in London.</p> <p>An article on tenancy fraud featured in Homing In magazine in April 2017 about a tenant that</p>
--	--	--	--

⁴ Maximum RTB discount is currently £104,900 off the property purchase price

	<p>Communications to run a housing fraud centric publicity campaign to raise awareness internally and the community including a key amnesty</p> <ul style="list-style-type: none"> Maximise the use of powers contained within the Prevention of Social Housing Fraud Act 2013 (PoSHFA) in terms of gathering evidence, investigation and prosecution of offenders and recovery of unlawful profit 	<p>Q1-4</p>	<p>was found to be residing in the US. She had tried to purchase her home through the RTB. This was intercepted and her tenancy recovered.</p> <p>Fraud flyers raising awareness were included in Council tenants rental statements issued in March – April 2017</p> <p>A housing fraud pull up banner was placed in Access Harrow Reception between May – July 2017 encouraging members of the public to report tenancy fraud.</p> <p>An individual that defrauded the Council’s help2let scheme and then vanished when the fraud was identified featured as an article in The Harrow Times and Harrow People Winter 2017. He was successfully prosecuted when arrested at the border re-entering the UK.</p> <p>PoSHFA 2013 Powers – on target The authority has utilised powers contained within the above act through requests to the National Anti Fraud Network (NAFN) on 15 occasions this year.</p> <p>If approved by NAFN, this enables the authority to access personal financial data on the tenant held by the banks on cases where it appears they have either sublet the property or are not residing as their principle home.</p> <p>Overall fraud savings attributed to this work stream is approximately £1.38 million</p>
9	<p>Internal fraud & corruption</p> <p>Risk assess 80% allegations of internal fraud and corruption as a priority and deploy resources on those cases where there is corroborative evidence within an average of 5 workings days of receipt of the information (KPI4).</p>	<p>Q1-4</p>	<p>Objective not met and ongoing</p> <p>The team has received 4 referrals this year and currently has 7 live investigations. Of the 4 referrals received, 3 were risk assessed within 5 working days.</p> <p>KPI4 target 80%, achieved 75%.</p> <p>There have been 2 positive outcomes</p> <p>1 employee was dismissed as a result of fraud and corruption investigations resulting in salary savings amounting to £13,269. The employee had diverted significant sums of Housing Benefit payments from live claims into accounts that they had some element of control over. They were arrested and have been charged with fraud by abuse of position along with one other person (non employee) and the matter is due for Crown Court trial in the coming months.</p> <p>The other employee was successfully prosecuted by the Crown Prosecution Services for identity fraud after they had provided a false passport to the employment agency as proof of identity. They pleaded guilty and were sentenced to 4 months imprisonment with an order that the document be destroyed.</p>

			<p>Of the 7 live investigations:-</p> <ul style="list-style-type: none"> • 2 cases are awaiting sentencing and trial outcomes • 1 case is with management for a decision • 5 cases still live under investigation <p>Overall fraud savings attributed to this work stream is £13,269 at present, but this will increase once the court cases are concluded</p>
10	<p>No Recourse to Public Funds (NRPFF) fraud</p> <p>Continue to work in partnership with the People Directorate to explore the area of <i>No Recourse to Public Funds</i> (NRPFF) recently highlighted in Protecting the English Public Purse 2015 and 2016, in undertaking targeted application validation and make recommendations to better manage fraud risks</p>	Q1-4	<p>Objective on target</p> <p>The team received 2 NRPFF referrals and have 2 live investigations presently. Both cases were linked to identity fraud.</p> <p>In one case the authority assembled sufficient evidence to cast doubt over the identity of the applicant and prove that they were also in a relationship, therefore being financially supported. The authority terminated financial support to this individual generating loss avoidance savings of £21,555.60</p> <p>The team continue to liaise with the NRPFF Team and Immigration on all cases to ensure that the gateway to services is robust and to ensure that fraud is identified and dealt with appropriately and preferably before it enters the system.</p> <p>Overall fraud savings attributed to this stream of work is £21,555.60.</p>
11	<p>Revenues/Business Rates/Council Tax Support fraud</p> <p>Work in partnership with Revenues and Benefits to Investigate allegations of fraud and abuse of the Council Tax, Council Tax Support and Non Domestic Rates Systems, including exemptions, discounts and reliefs, apply appropriate sanctions where fraud is proven and assist in the recovery of fraud related losses</p>	Q1-4	<p>Objective on target</p> <p>The team has received 17 referrals of Council Tax discount fraud, CTRS fraud and NNDR fraud of which there are currently 13 live cases.</p> <p>4 cases have resulted in positive outcomes amounting to savings of £7,688.91. 1 case was in relation to a false Single Person Discount application and the other cases were all in relation to Council Tax Support cases identified as a result of linked housing fraud investigations</p> <p>1 case of housing benefit fraud amounting to £22,881.72 was identified following a tenancy fraud investigation where the tenant was living in the US. The DWP are currently investigating this matter.</p> <p>Overall fraud savings attributed to this work stream is £30,570.63</p>
12	Social care fraud	Q1-4	Objective on target

	<p>Work in partnership with the People Directorate and Internal Audit to explore social care fraud and abuse by ensuring that:-</p> <ul style="list-style-type: none"> • personal budget funding is spent according to care plans • monitoring of the budget is undertaken effectively • suspicions of fraud are referred to the CAFT when appropriate • • • make recommendations to better manage fraud risks 		<p>A joint review with Internal Audit of personal budgets is scheduled for Q3 to focus on financial assessments, monitoring and recovery of funds and care packages.</p> <p>There have been 5 positive outcomes involving social care/grants. These have comprised of:-</p> <ul style="list-style-type: none"> • 1 disabled facility grant rejected on the basis of an unacceptable builders invoices being presented • 1 incentive 'grant to move' rejected linked to tenancy fraud and a fraudulent RTB application • 2 help2let incentive grants rejected, 1 of which the applicant was successfully prosecuted after fleeing the country and being arrested at the border re-entering the UK • 1 personal budget fraud <p>The team received 6 referrals of which 8 are currently live investigations (cases live before April 17).</p> <p>Overall fraud savings attributed to this work stream is approximately £25,207.32</p>
13	<p>Partnership working</p> <p>Responding to requests for information in a timely manner from our law enforcement partners e.g Police, HMRC, Other LA's etc</p>	Q1-4	<p>Objective on target</p> <p>The team continues to respond to requests for information from other law enforcement agencies to support their work.</p>
14	<p>Risk assess allegations of fraud and corruption</p> <p>Risk assess 80% of allegations of fraud and corruption and deploy resources on those cases deemed sufficiently high enough fraud risk within an average of 10 working days of receipt of the information. (KPI5)</p>	Q1-4	<p>Objective not met and ongoing</p> <p>Of the 105 referrals received in Q1 & Q2, 60% were risk assessed and resources deployed to those cases accepted for investigation. This is the first time this performance indicator has been targeted.</p> <p>Analysing the figures it is clear that at times, capacity has limited the activity that could be directed towards this function. However, Q3 performance to date is meeting around 78% so improving</p> <p>KPI5 target 80%, achieved 60%</p>

No.	CAFT Key Performance Indicators 2017/18	Target	Mid-year progress	KPI mid-year description
1.	Recovery of 15 social housing units subject to fraud and misuse	100%	60% (9/15)	Exceeding
2.	% of fraud validation checks undertaken on cases referred to the CAFT set live on the housing waiting list before offer made	90%	89% (8/9)	Met
3.	% of fraud validation checks undertaken on Right to Buy applications referred to the CAFT at offer stage and before completion	90%	100% (21/21)	Exceeding
4.	% of internal fraud and corruption referrals risk assessed and resources deployed in 5 working days	80%	75% (3/4)	Not met
5.	% of fraud and corruption referrals risk assessed and resources deployed in 10 working days	80%	60% (61/101)	Not met

71

Analysis of results

1. The partnership with Housing Resident Service has recovered 9 properties out of a target of 15 at the mid-year point so this indicator is being exceeded. A further 2 properties have been recovered in Q3 at the time of report writing making a total of 11.
2. In terms of the % housing cases receiving a fraud validation check before an offer of housing is made, this indicator is running at 89% which is just about on target. The 1 case where the check has not been fully complete is live and on going but the offer of accommodation has not yet been made so the risk of fraud is low.
3. All 21 Right to Buy referral cases have been fraud checked prior to purchase or are undergoing checks as at the end of Q2. This indicator target of 90% is being exceeded at 100%.
4. Of the 80% target indicator for risk assessing internal fraud referrals within 5 working days, the output is 75% so the target is a little under where it should be. In real terms, this was 1 case out of 4 where an allegation of financial irregularity was made that was already being dealt with by another department so it was low risk and did not require urgent attention.
5. Of the 80% target indicator for risk assessing all fraud referrals within 10 working days, the output is at 60% so the target is down on where it should be. The main issue identified is the capacity to deal with the volumes of incoming work within the target set. Some changes in personnel have occurred during Q1 and Q2 relating to this activity which has had a negative impact upon the throughout. The output in Q3 has already increased to 78% so it is envisaged that by year end the figure will be in excess of 80%

This page is intentionally left blank

Appendix 4 Fraud Referrals, Outcomes & Savings Summary Mid Year 2017-18

	17/18 Q1	17/18 Q2
Housing application fraud		
Referrals	5	4
Positive outcomes	1 ¹	2
Savings	£148,000	£81,000
Blue badge		
Referrals	5	5
Positive outcomes	0	0
Savings	£0	£0
Fraud other		
Referrals	0	4
Positive outcomes	0	0
Savings	0	0
No Recourse to Public Funds		
Referrals	1	1
Positive outcomes	1	0
Savings	£21,555.60	0
Revenues/CT/CTRS		
Referrals	9	8
Positive outcomes	2	3
Savings	£2,919.71	£27,650.92
Internal		
Referrals	3	1
Positive outcomes	1	1 (employee prosecution)
Savings	£13,269 (employee dismissal)	0
Right to Buy		
Referrals	8	13
Positive outcomes	2	1
Savings	£209,800	£104,900
Social care/grants		
Referrals	2	4
Positive outcomes	4	1 (prosecution)
Savings	£25,207.32	0

¹ National Fraud Initiative cases where 42 individuals were removed off the housing waiting list but grouped as 1 outcome as a housekeeping exercise.

Tenancy		
Referrals	19	13
Positive outcomes	3	6
Savings	£279,000	£558,425.5
Total	Q1	Q2
Referrals	52	53
Positive outcomes	14	14
Fraud Savings	£699,751	£771,976

2017-18 Mid-Year Financial Summary

The level of fraud and corruption identified for 2017-18 at the mid-year point amounts to £1.47 million which represents an approximate return on investment for the team's running costs of just under 6:1.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank