

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

Date of Meeting: 8 December 2015

Subject: **INFORMATION REPORT –
INTERNAL AUDIT AND
CORPORATE ANTI-FRAUD
UPDATE**

Responsible Officer: Tom Whiting – Corporate Director
Resources and Commercial

Exempt: No

Wards affected: All

Enclosures: Appendix 1 - Protecting the English
Public Purse 2015 (PEPP)
Appendix 2 - Protecting the London
Public Purse 2015 (PLPP)
Appendix 3 – Harrow Fraud Briefing
2015

Section 1 – Summary

This report provides an update on progress made by Internal Audit and the Corporate Anti-Fraud Team in the current financial year.

FOR INFORMATION

Section 2 – Report

Introduction

- 2.1 Formal mid-year reports for both Internal Audit and the Corporate Anti-Fraud Team will be presented to GARMS at the next meeting. In the mean-time it was felt appropriate to provide a joint update report to reflect the new reporting arrangements and to keep members abreast of the progress being made in key areas.
- 2.2 The Corporate Anti-Fraud Team now report into the Head of Internal Audit who reports directly to the Corporate Director of Resources and Commercial. The Head of Internal Audit maintains close links to the Director of Finance (S151) via formal quarterly meetings (and many informal task specific meetings in-between).
- 2.3 The new arrangements provide an increased opportunity for the Internal Audit and Corporate Anti-Fraud Teams to work closer together and make best use of limited resources. This is already being demonstrated in the joint approach to the CIPFA Fraud Code self-assessment and in an on-going joint investigation.

Internal Audit

- 2.4 Progress against the 2015/16 Internal Audit plan in the first half of the year has been slightly slower than usual. As at 30th September 2015 37% of the plan had been achieved, 8% lower than the target (45%) however:
 - two of the six Internal Audit posts (33%) were vacant due to maternity leave and a secondment;
 - IT reviews in the plan due to be undertaken by PwC (under the shared service framework) are yet to be started;
 - there have been a number of emerging risks e.g. the CIPFA Delivering Good Governance in Local Government consultation and suspected financial irregularities (examples can be provided verbally under part II);
 - there has been a higher than anticipated level of input required to finalise work undertaken under to 2014/15 plan, in particular reviews undertaken by PwC;
 - a change in reporting lines resulting in an increased workload for the Head of Internal Audit.

However:

- all of the Core Financial Systems work has been completed;
- the Annual Governance Review and Statement have been completed; and
- progress has been made with the new approach to the audit of schools.

- 2.5 The mid-year report to be presented at the next meeting will provide more detail and will show proposed changes to the plan for the second half of the year i.e. to take into account changes in resource levels, emerging risks, and the level of suspected financial irregularities/whistleblowing investigation, as it is likely to be even more challenging than the first.

Risk Management

- 2.6 Following the deletion of the Risk Manager's post in 2014 responsibility for Corporate Risk Management was passed to Internal Audit and absorbed into the Head of Internal Audit's role with support from the Quality Auditor whose post was deleted in April 2015.
- 2.7 The update of the Corporate Risk Register has been decreased from quarterly to six monthly and would usually be undertaken in October/November however this is currently slightly behind schedule. In addition the plan identified a need to update the Corporate Risk Appetite Statement. An update on progress will be provided at the next GARMS meeting.

Corporate Governance

- 2.8 Following the successful completion of the Annual Governance Review and Statement in the Corporate Governance Group responded to the revised Framework (consultation draft) developed by the CIPFA/SOLACE Joint working Group on Good Governance in Local Government which builds on the International Framework : Good Governance in the Public Sector (CIPFA/IFAC 2014). The International Framework places sustainable economic, societal and environmental outcomes as a key focus for governance processes and structures. It emphasises the importance of considering the longer term and the links between governance and public financial management – all key considerations for local authorities in today's climate.
- 2.9 The core principles and sub principles from the International Framework have been adapted for the local government context and translated into a series of expected behaviours and outcomes which are intended to demonstrate good governance in practice. The principles in the consultation draft aim to form a standard for good governance and a shared understanding of what constitutes good governance across local government.
- 2.10 The two key points made in the consultation response was the achievability of the proposed timing of the implementation of the new framework, which was for 2015/16 and the increased burden the new framework will place on the local authority at a time of decreasing resources.
- 2.11 CIPFA have now confirmed that, *'the Framework is now being redrafted to take account of respondents' views and a revised edition*

together with a new guidance note will be published in early 2016. The revised Framework will apply from 2016/17'. This is good news and will enable us to review and update our Code of Corporate Governance in time for the new financial year.

Corporate Anti-Fraud CIPFA Code of Managing the Risk of Fraud & Corruption update

- 2.12 In April 2015 GARMS adopted the CIPFA Code and in July 2015, the committee were informed that the authority intended on undertaking a self assessment against the code which would then inform the development of an action plan to meet any of the gaps identified. The self- assessment exercise was dependent upon CIPFA releasing the self -assessment toolkit which at the time had not been published.
- 2.13 In October 2015 CIPFA published the self - assessment toolkit to supplement the actual Code. Since this time the Corporate Anti-Fraud Team and Internal Audit have commenced work against the self - assessment toolkit and have completed 60% of the assessment. The assessment covers the 5 principles of the Code and there are a number of statements to address within each of the principles:
- Acknowledge Responsibility (11 statements)
 - Identify Risks (13 statements)
 - Develop a Strategy (15 statements)
 - Provide Resources (10 statements)
 - Take Action (19 statements)
- 2.14 Early indications are that the authority has some work to do to bring it up to a standard that would indicate there is a good level of corporate resilience in place to manage fraud and corruption risks, e.g. in terms of measurement against Principle A - Acknowledging Responsibility, the authority has reached a compliance level of 41% with an overall summary that the organisation has reached a basic level of performance. In order that the authority improves its standing against this principle, Council wide leadership support needs to be demonstrated more regularly to help build an anti-fraud culture within the organisation.
- 2.15 In terms of actions required, once again early indications are that there will be some 'quick wins' that can be implemented in a reasonable time frame to make positive progress, combined with longer term actions that will form the basis of a more detailed piece of work requiring greater engagement with all directorates, a period of consultation and ownership transferred to the directorates.
- 2.16 The full results of the self-assessment will be reported back to GARMS and a subsequent action plan developed for implementation in 2016-17 and beyond.

Protecting the English Public Purse 2015 (PEPP) (Appendix 1)

2.17 National Protecting the Public Purse (PPP) reports have played a vital role for local authority fraud detection, prevention and investigation over the past 25 years in terms of illustrating fraud trends, best practice and emerging fraud risks. These reports were produced by the Audit Commission. In March 2015, the Audit Commission was abolished and this important work was due to cease.

2.18 In response to this and other concerns, a number of stakeholders got together to form the European Institute for Combatting Corruption And Fraud (TEICCAF). TEICCAF includes the former counter-fraud team of the Audit Commission and they have agreed to continue the PPP series of reports, now called Protecting the English Public Purse (PEPP) and the annual detected fraud and corruption survey. In compiling this report almost 60% of councils in England responded to the fraud survey.

2.19 The first PEPP 2015 was published in July 2015 and is attached as Appendix 1. Highlights from the report include:-

- English Councils detected fewer cases of fraud in 2014/15 compared with the previous year, however their value increased by more than 11%;
- The numbers of detected cases fell by more than 18% to over 84,000, whilst their value increased by more than 11% to greater than £207 million;
- The number of detected non benefit (corporate fraud) cases fell by more than 8% to more than 57,000, whilst their value increased by greater than 63% to more than £97 million;
- 2,993 tenancy frauds were detected, a more than 1 % decrease on the previous year;
- London continues to detect more tenancy fraud than the rest of the country combined

In terms of areas of significant emerging fraud risk for councils, Right to Buy (RTB) and No Recourse to Public Funds (NRPF) have been identified as the fastest growing.

- RTB detected fraud cases more than doubled to 411, whilst their value increased by nearly 145% to more than £30 million. It is estimated that in London, RTB fraud rates are running at 3% of all applications.
- It is interesting that legislative proposals to extend the RTB to housing associations is likely to result in similar levels of RTB fraud of that experienced by councils, but in the main, housing associations do not have the counter fraud capacity or capability equivalent to councils to tackle such fraud
- NRPF is a new sub category of fraud and whilst relatively few councils pro-actively target this area of fraud, in 2014/15 there were still 444 cases detected with a value of more than £7 million.

2.20 Harrow Council has prioritised many of the areas identified through the PEPP report as being high risk to fraud and these areas form the basis of the annual fraud plan such as housing tenancy and RTB fraud,

housing application fraud, social care, blue badges, council tax discounts/support and some grants.

- 2.21 In terms of the emerging fraud risks of RTB, the Corporate Anti-Fraud Team working in partnership with housing now 'fraud check' 100% of all new RTB applications and this has already turned up some interesting results, e.g. one such case has identified that the tenant had financial links to other addresses in London and appeared to be subletting the council property. This RTB has been intercepted preventing the loss of an asset and the authority is now working towards regaining possession.
- 2.22 With regard to the other emerging risk of NRPF, the CAFT has recently made contact with Harrow's NRPF team and is already investigating one suspected case of fraud and is looking to assist the team improve their application validation process to prevent fraud entering the system.
- 2.23 The report also highlighted that authorities have been subject to significant funding reductions since 2010. PPP 2014 reported a near 20% reduction in counter fraud resources in councils between 2010 and 2014. It is therefore no surprise that that the survey highlighted Capacity (sufficient counter fraud resource) as the top risk facing councils tackling fraud.

Protecting the London Public Purse 2015 (PLPP) (Appendix 2)

- 2.24 In addition to PEPP, TEICCAF also produced a bespoke report for London Councils following a request from the London Borough of Fraud Investigators Group (LBFIG) – Appendix 2. London achieved a 93.9% participation rate in the survey with the next best region in England achieving 67.9%. London councils continue to lead the way nationally in the fight against fraud.
- 2.25 In terms of the fraud detected by London Councils, whilst the number of cases dropped from 21,606 in 2013/14 to 19,513 in 2014/15, the value jumped significantly from £49,921,000 to £73,086,000 for the same period. This is the highest value of detected fraud in London since PPP began over 25 years ago. The results in the London report reflect broadly the fraud risks faced nationally, but given the socio economic factors in London, the values and risks are somewhat greater.
- 2.26 To support this report TEICCAF also produced an individually tailored comparative analysis for Harrow to compare its outcomes against other London Boroughs (Appendix 3). Harrow welcomes this opportunity to benchmark its performance across London and to drive improvement in areas where required.
- 2.27 In overall summary, Harrow detected the 9th most fraud cases in London and the 9th highest in value. In terms of Council Tax discount fraud numbers, Harrow detected the 8th most and the 6th highest in value.

- 2.28 Of those councils with housing stock, disappointingly Harrow featured 26th in terms of the numbers of properties recovered through fraud with a figure of 6 against a London average of 57. These figures however do not take into consideration the amount of housing stock. Harrow has one of the lowest in London and has a mature tenancy audit programme in place for a number of years. Harrow also did not identify any cases of RTB fraud in 2014/15 against a London average of 9, but has identified a number of cases in 2015/16 so activity has increased.
- 2.29 Harrow also had a nil return for the areas of Insurance fraud, procurement fraud, NRPF fraud, social care fraud and third sector fraud, but the London average for most of these areas was relatively low, being just 1 case.
- 2.30 However, whilst this data was provided, the tailored comparative analysis did not compare fraud resources across London, which may have explained some of the wide variations on outcomes. TEICCAF have been asked to provide a response to this query as it would appear to be a real opportunity missed to demonstrate variations across London.

Section 3 – Further Information

- 3.1 None

Section 4 – Financial Implications

- 4.1 There are no financial implications.

Section 5 - Equalities implications

- 5.1 Was an Equality Impact Assessment carried out? No – Not applicable

Section 6 – Council Priorities

- 6.1 Improving controls to mitigate risks in the Council's systems helps to ensure that system objectives are met which feed into the administration's priorities and the achievement of the Council's vision.

Name: Dawn Calvert



on behalf of the
Chief Financial Officer

Date: 25/11/15

Ward Councillors notified:

N/A.

Section 7 - Contact Details and Background Papers

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Background Papers: