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

Date of Meeting:	19 July 2016
Subject:	**INFORMATION REPORT** – Internal Audit and CAFT Year-End Reports 2015/16
Responsible Officer:	Tom Whiting – Corporate Director of Resources & Commercial
Exempt:	No
Enclosures:	Appendix1 – Internal Audit Year-end Report 2015/16 Appendix 2 – CAFT Year-end Report 2015/16 Appendix 3 – Annual Fraud Indicator 2016

Section 1 – Summary

This report sets out the 2015/16 year end reports for Internal Audit and the Corporate Anti- fraud Team and includes the Head of Internal Audit's overall audit opinion on the control environment.
FOR INFORMATION

Section 2 – Report

Background

2.1. Annually the GARMS Committee considers a mid and full year report from Internal Audit and the Corporate Anti-fraud Team covering progress against the agreed plans. This is the year-end report for 2015/16.

Internal Audit: Overview of Progress

2.2. Overall the Internal Audit Team has achieved 88% of the 2015/16 revised annual audit plan. This included 100% achievement of the core financial systems reviews relied upon by the council's External Auditors for their risk assessment of the authority. Twenty- seven audit reports, 2 audit briefing notes and 6 self-assessments were issued during the year containing a total of 109 recommendations of which 100% were agreed (or alternative actions agreed) for implementation which exceeds the 95% performance target.

2.3 Appendix 1 provides a summary of work undertaken during the year including the assurance rating of each review, details of follow-up work and detailed results of the team's performance indicators showing that 5 of the 7 were met or exceeded and 2 of the 3 corporate indicators were met or exceeded.

Internal Audit: Summary of Findings

2.4 Bearing in mind that the audit plan is risk based and that the vast majority of the reviews undertaken were rated as high risk a relatively low number of red assurance reports were issued in the year indicating that overall there is a strong internal control environment. All follow-ups resulted in a green assurance rating demonstrating that the organisation remains responsive to Internal Audit recommendations and that Internal Audit is adding value by helping management to improve the control environment.

2.5 Of the three red assurance reports one as a result of investigations (school) and one was an emerging risk (HSIP). One red/amber assurance report was also issued (Mandate Fraud).

2.6 Of the other work undertaken during the year the Core Financial Systems and the schools continue to demonstrate that sound controls are in place.

Draft Audit Opinion on Overall Control Environment

2.7   This is the draft overall opinion based on internal audit risk based and reliance work carried out in 2015/16 and the core financial systems work for 2015/16 undertaken in Q1 of 2016/17. Evidence for one self-assessment/walkthrough is still outstanding and thus the overall opinion is still draft.

The adequacy and effectiveness of organisation's control environment for the 2015/16 financial year has been assessed as "good" based on the following:

- 83% of the traffic lighted systems reviewed during 2015/16 were given an amber, an amber/green or a green assurance rating;
- 100% of recommendations made during 2015/16 were agreed for implementation;
- 83% of recommendations followed-up have been implemented, 16% are in progress or are planned at the time of follow-up thus it is expected that in due course 99% will be implemented. All follow-ups resulted in an improved assurance rating with 100% attaining a green assurance rating;
- 97% of controls reviewed within the Council's core financial systems were either operating fully or substantially, with 3% operating partially.
- 7 suspected financial irregularities were reported to Internal Audit during 2015/16 only one of which resulted in any loss to the Council.
- Fraud Governance has been assessed using the CIPFA Fraud Governance Checklist and has been assessed as an Amber assurance.

2.8   The final opinion will be reported to GARM at the next meeting.

CAFT: Overview of Progress

2.9   Of the 13 objectives in the CAFT Service Plan 2015-16, ten were met and three were not met. See Appendix 2 for full supporting details and commentary surrounding the objectives.

2.10 Work undertaken on housing fraud continues to remain as high risk for local government following the findings of *Protecting the English Public Purse 2015*. Nine recovered properties and five rejected Right to Buy applications working in partnership with Housing represented a fraud loss saving in excess of £900,000. Ensuring that individuals and families in temporary accommodation are re-housed in permanent accommodation before the average waiting time is crucial to relieving pressure off the waiting list and delivering savings to the authority.

2.11 Preventing the loss of Council properties through fraudulent Right to Buy applications is vital to protecting assets falling in to the wrong hands. In achieving five rejections, the authority has ensured that precious housing resources were not lost, thus reducing the allocation pool with which to house those that need help the most from the authority.

2.10 The housing hub has been fully embedded in a number of departments in the authority who are now undertaking a preventative check before processing a housing application, before offering an individual a council tenancy, before approving a Right to Buy application or before offering a financial incentive to a tenant to surrender a tenancy. Preventing fraud entering the authority's housing and council tax support system is central to the work of the hub.

2.11 Blue badge fraud work continues to be high profile given the levels of National and Pan London misuse and it is important that the public are assured that the scheme is protected for those is genuine need. However, with reduced resources in the CAFT, this work will be undertaken purely on a risk basis where it is felt that there is a genuine business case to divert resources towards an area in the borough where alleged misuse is widespread.

2.12 The work involving the main Registered Social Landlord's (RSL) in Harrow will continue to be developed now that we have arrangements in place with the main five organisations with housing in Harrow. There is real potential for the authority to undertake the Right to Buy processing, validation and investigation work on behalf of the RSLs once the legislation details are known. A fee based service could be considered which would add resilience to the CAFT structure rather than being absorbed into existing resources.

2.13 In terms of objectives not met, fraud work on direct payments continues to be classed as high risk for Councils given the amount of spend and the challenges in gaining access to the relevant data to be able to provide assurance to the authority needs to be overcome. This area will be tackled with a joint approach with Internal Audit in 2016-17 so that the system of controls can be reviewed as well as fraud sampling of live payments.

2.14 A campaign of fraud awareness will be picked up as part of the CIPFA Code on Managing the Risk of Fraud & Corruption project and both of these objectives will transfer over to 2016-17 for completion. The action plan developed from the self- assessment exercise has fed into the Fraud Plan for 2016-17 with a focus on improving fraud awareness both internally and in the community, developing an anti-fraud and corruption strategy, assessing the corporate fraud risks in a more structured way and the consideration of developing a fraud risk register to supplement the existing risk framework.

Anti-Fraud & Corruption Strategy

2.15 Following on from the CIPFA self- assessment work, a new Anti- Fraud & Corruption Strategy is in draft and will shortly be consulted on with the

Directorates, Senior Officers and Elected Members including GARMSC. It has been drafted in a way that aligns with the CIPFA Code and features best practice so as to truly reflect Harrows fraud and corruption risks, acknowledges them, identifies and assesses the risks, prevents and pursues fraud when perpetrated in a coordinated manner where fraud and corruption risks are seen as a Corporate risk and not a risk that can be dealt with in isolation.

2.16 Seeking the support from the Leadership team including Elected Members will be crucial to increasing the organisation's resilience to fraud and corruption and developing and maintaining a culture where fraud and corruption either internally or externally will not be tolerated. Part of this consultation is about raising awareness so that people understand what fraud is, how it can impact organisations and how employees and the public can help to stop it. The views of this committee on the strategy would be hugely appreciated when it is brought before it in September 2016.

Annual Fraud Indicator 2016

2.17 In 2013 the now defunct National Fraud Authority (NFA) published its last Annual Fraud Indicator which was a measurement to illustrate the scale, prevalence and cost of fraud. In 2013, their estimates placed fraud at £52 billion.

2.18 In May 2016 PFK Littlejohn LLP working in conjunction with Experian and the University of Portsmouth's Centre for Counter Fraud Studies on behalf of the UK Fraud Costs Measurement Committee published their updated Annual Fraud Indicator Report 2016. Their estimates placed the cost of fraud at £193 billion. This represents a large increase in the space of 3 years.

2.19 The true cost of fraud is not known because so much of it goes undetected and unreported, but what we do know is it is taking place of a grand scale and the losses are increasing.

2.20 The report is attached as Appendix 3 for information.

Further Information

The next report on the performance of Internal Audit and CAFT will be the 2016/17 Mid-year Reports to be submitted to GARM Committee in December 2016.

Financial Implications

There are no financial implications to this report.

Equalities implications

None

Corporate Priorities

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.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert….   ✓   Chief Financial Officer

Date: 06/07/16

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit, Tel: 0208 424 1420

Background Papers: None