

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

Date of Meeting: 31 January 2017

Subject: **INFORMATION REPORT –
Internal Audit and Corporate
Anti-fraud Mid-Year Report and
Plan Update 2016/17**

Responsible Officer: Tom Whiting – Corporate Director
Resources and Commercial

Exempt: No

Enclosures: Appendix 1 – 2016/17 Internal Audit
Mid-Year Report + Quarter 3 & Plan
Update
Appendix 2 – Corporate Anti-fraud
Team Mid-Year Report + Quarter 3
Update
Appendix 3 – Fraud Referrals

Section 1 – Summary

This report sets out progress against the 2016/17 Internal Audit and Corporate Anti-fraud plans.

FOR INFORMATION

Section 2 – Report

Introduction

2.1. Annually, the Governance, Audit, Risk Management and Standards 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 2016/17 and also covers progress in Quarter 3 and an update on the Internal Audit annual plan.

Internal Audit Mid-year Results (Appendix 1)

2.2 Overall 47% of the plan was completed at mid-year 2% higher than the target (45%). This is better than expected with all key areas of work, such as core financial systems, the annual review of governance and the Annual Governance Statement being completed.

2.3 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. Three of the 9 systems were reviewed in the first quarter of 2016/17 and control self-assessments were completed for the other 6 systems. In addition, to satisfy the requirements of the External Auditors, managers were asked to review and update systems documentation and Internal Audit undertook walkthrough tests to confirm the actual system in operation for all core financial systems. Out of a total of 31 controls reviewed, 22 (71%) were fully operating, 8 (26%) were substantially operating and 1 (3%) was partially operating.

2.4 For 2016/17 the performance indicators have been reviewed and streamlined. Overall, 3 (75%) of the Internal Audit performance targets have been met or exceeded. One (25%) of the performance targets has been exceeded, 2 (50%) have been fully met and 1 (25%) target has not been met. Performance indicator 1 (recommendations agreed for implementation) has not been met - 2 recommendations out of a total of 22 were not agreed, 1 of these was a medium risk and 1 a low risk.

2.5 The result for the corporate performance indicator shows that whilst 69% of recommendations had been implemented at the time of follow-up a further 27% are planned for implementation giving an expected implementation rate of 96% exceeding the 90% target.

Internal Audit: Quarter Three Update

2.6 Although good progress was made with planned work in Q3 (Appendix 1, Table 8) a number of additional/emerging risks (Appendix 1, Table 10) have had an impact and along with a slight reduction in resources will continue to impact in Q4.

Internal Audit 2016/17 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. In-year changes to audit resources can also impact on the plan and are usually also picked up in the mid-year review.

- 2.8 During the development of the 2016/17 audit plan it was not known that one member of the team would be on maternity leave starting in Q3 however this short-fall in resources will be mitigated to an extent by another officer's early return from maternity leave in Q4. The impact has been further mitigated by the flexible use of the resource brought in to support the Council's Risk Management function resulting in only a 40 day reduction of resources available to complete the 2016/17 plan.
- 2.9 It is estimated that 103 audit days will be required to review emerging risks in the 2016/17 plan and to compensate for this reviews equating to 105 audit days have been taken out of the plan (Appendix, Table 11). Wherever possible reviews removed from the plan are 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 emerging risks. These reviews taken out of the 2016/17 plan will automatically be considered for inclusion in the 2017/18 audit plan.

Internal Audit Peer Review

- 2.10 A quality assurance and improvement programme that covers all aspects of the internal audit activity is a requirement of the Public Sector Internal Audit Standards (PSIAS). A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 2.11 The quality assurance and improvement programme must include both internal and external assessments. Internal assessments include on-going monitoring of the performance of the internal audit activity and periodic self-assessments. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 2.12 After the PSIAS came into force in 2013 the Internal Audit Teams of the London Boroughs agreed to set up a programme of Peer Reviews based on a self-assessment with independent external validation. A Peer Review of the Harrow's Internal Audit service will be undertaken during Q4 the results of which will be reported to the next GARMS Committee meeting.

Corporate Anti-Fraud Team (CAFT) 2016-17 Progress Against Plan (Appendices 2 and 3)

- 2.13 Of the 15 objectives in the CAFT Service Plan 2016-17, 2(13%) objectives have been completed up to the end of Q3, 9(60%) are on target to be met, 2(13%) are on-going, 1(7%) has been pushed back to June 2017 for completion and 1(7%) has been put back to 2017-18 service planning for a review.

- 2.14 In terms of a value of fraud and corruption identified to date, what can be measured amounts to £631,000, which represents a 3:1 return on investment for the teams running costs. There is a proportion of work that the team undertakes that cannot be measured, e.g. the value of fraud awareness training which could prevent fraud occurring.
- 2.15 The three pieces of work identified as a priority following the team's self-assessment against the CIPFA Code of Practice for Managing the Risk of Fraud & Corruption have progressed positively during 2016-17.
- 2.16 The review of the Corporate Anti-Fraud & Corruption Strategy has been complete and this will pass to Council on 23rd February 2017 for approval and adoption into the Constitution. Once approved, there will be internal publicity surrounding a launch, raising awareness of the strategy and its importance in the authority in protecting public finances and taking a strong line from the top of the organisation to dealing with fraud and corruption robustly.
- 2.17 The work in relation to identifying fraud risks and establishing a fraud risk register is ongoing and has taken longer than intended mainly due to the sheer volume and complexity of fraud work that has come into the team during the year. The target for the completion of the fraud risk assessment and establishment of a fraud risk register has therefore been pushed back to June 2017 (originally March 2017).
- 2.19 The work in preparation for the National Fraud Initiative (NFI) exercise was completed on time at the end of Q3 and the authority is well positioned to pick up the matches when they are returned at the end of January 2017.
- 2.20 Raising awareness of fraud is progressing well with a number of sessions delivered to various parts of the authority rated as high risk of fraud and this has been complemented by the team taking part in the Housing Fair in July 2016 and involvement in the Channel Five TV programme 'Undercover: Nailing the Fraudsters'. The development of an e-learning fraud awareness package in 2017-18 will supplement this face to face awareness.
- 2.21 The volume and diversity of the teams work in the area of housing fraud has gone particularly well, with seven properties being recovered, in addition to two housing applications being refused and two Right to Buy applications being rejected. The partnership work with Housing Resident Services, Leasehold Services and HB Public Law Services is getting stronger and this can be demonstrated with the numbers of live cases under investigation in these areas.
- 2.22 No Recourse to Public Funds (NRPF) work stream has been a relatively new one having featured high on fraud risks in the Protecting the Public Purse Report 2015. The team continues to work closely with Children's Services to identify fraud in this area.
- 2.23 Work on revenues, blue badges and social care fraud streams is progressing well and will benefit from the risk assessment review

undertaken in November so that the team focus its limited resources on areas of high risk and high value and that which has the greatest impact on the authorities' resources and finances.

2.24 In terms of objectives not on target, the work exploring commercialisation has not been commenced due to volume and complexity of fraud referrals coming into the team of higher priority, so this will be reviewed as part of the service planning process for 2017-18. A backlog of referrals experienced in Q1 and Q2 has now been cleared following a review of the fraud risk assessment process and as at the end of Q3, the team is up to date on processing of referrals.

Section 3 – Further Information

3.1 The next report on the performance of the Internal Audit and CAFT will be the 2016/17 Year-End Report to be submitted to Governance, Audit, Risk Management and Standards Committee in July 2017.

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: 19 January 2017

Section 7 - Contact Details and Background Papers

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

Background Papers: None