

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

Date of Meeting: 17 July 2018

Subject: Internal Audit & Corporate Anti-Fraud Plans 2018/19

Responsible Officer: Dawn Calvert – Director of Finance

Exempt: No

Enclosures: Appendix 1 Internal Audit & Corporate Anti-Fraud Plans 2018/19
Appendix 2: Internal Audit Charter
Appendix 3: Internal Audit Peer Review

Section 1 – Summary and Recommendations

This report sets out the Internal Audit & Corporate Anti-Fraud Plans for 2018/19.

Recommendations:

The Committee is requested to: Review and approve the Internal Audit & Corporate Anti-Fraud Plans 2018/19 and the Internal Audit Charter in accordance with the Public Sector Internal Audit Standard 2020 Communication and Approval.

Section 2 – Report

Internal Audit Draft Plan 2018/19 (Appendix 1)

Background

- 2.1 Internal audit is a statutory service. The Accounts and Audit Regulations 2015, state that:
- ‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’
- 2.2 The Public Sector Internal Audit Standards (PSIAS) have been adopted and are being implemented by the Council’s Internal Audit section. A self-assessment against the standards was undertaken in February 2017 that formed the basis of an external peer review completed in June 2017. The peer review found that the service ‘Generally Conforms’ with the Public Sector Internal Audit Standards with no major or significant observations that need to be addressed. This outcome was already reported to GARMS Committee as part of the 2016/17 Year-end report in June 2017 and the final report, including agreed actions, is now attached at Appendix 3.
- 2.3 It is a requirement of the PSIAS that the ‘chief audit executive’ (Head of Internal Audit) ‘must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.’

Annual Plan Process

- 2.4 In compliance with the PSIAS requirement annually a risk based internal audit plan of work is developed by the Head of Internal Audit to determine the priorities of the internal audit service for the coming year to support the Council’s vision and priorities.
- 2.5 The 2018/19 plan has been developed taking into account the Council’s risk management framework, including the risk maturity of the organisation and the risk appetite statement. The Chief Executive, Corporate Directors, Divisional Directors, the Director of Finance (S151 Officer) and other senior management have been consulted and their input used to help assess risks not specifically linked to the Corporate or Directorate risk registers and a documented risk assessment has been undertaken for such reviews included in the plan.
- 2.6 The development of the plan has also taken into account the requirement for the Head of Internal Audit to produce an annual internal audit opinion on the Council’s framework of governance, risk management and control, reported each year in the Internal Audit Year-end report.

Internal Audit Strategy

- 2.7 Internal audit adds value to the organisation and contributes to the corporate vision and priorities by providing assurance on the organisation's control environment, alerting managers to weaknesses identified in the control environment, highlighting the risks of such weaknesses and instigating action to be taken by managers to improve the control environment via the implementation of audit recommendations/advice.
- 2.8 The annual plan is designed to provide the GARMS Committee, the Corporate Strategic Board (Chief Executive + Corporate Directors), the S151 Officer and other senior managers with assurance on the Council's control environment.
- 2.9 The plan will be delivered primarily by the dedicated in-house team situated in the Resources Directorate in accordance with the Internal Audit Charter (Appendix 2). The Charter has been reviewed and updated for 2018 with the only significant change being the reporting line of the Head of Internal Audit that has changed on an interim basis to the Director of Finance (s151 Officer) whilst the Corporate Director of Resources is covering the post of Chief Executive on an interim basis. The Internal Audit team is supported by an external provider, PwC, jointly procured with 5 other London Boroughs (Islington, Camden, Barnet, Enfield and Lambeth) who provide, in the main, IT audit specialist skills. The six boroughs participating in the framework, along with the selected external provider, form the Cross Council Assurance Service (CCAS). Participating in the framework enables us to work more closely with the other London Boroughs and the external provider, sharing expertise, knowledge and working practices to further enhance the efficiency and effectiveness of the internal audit service.
- 2.10 Key to the successful delivery of an effective internal audit service in a rapidly changing business environment is flexibility. This will be achieved by continual monitoring of the plan and emerging risks throughout the year with adjustments made to the plan as necessary. In recent previous years emerging risks have led to significant changes being made to the annual plan at mid-year, in an attempt to minimise the need for changes a number of days have been included in the 2018/19 days specifically for dealing with emerging risks.

Organisational Independence

- 2.11 The Public Sector Internal Audit Standards require the chief audit executive (Head of Internal Audit) to confirm to the board (GARMS Committee/CSB), at least annually, the organisational independence of the internal audit activity and if independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties.
- 2.12 The internal audit service at Harrow does have organisational independence in that the Head of Internal Audit does report functionally

to the board (GARMS Committee/CSB), has effective communication with, and free and unfettered access to, the Chief Executive and the chair of the audit committee (GARMS Committee). However the objectivity of the service is impaired in relation to the Corporate Anti-Fraud Team, the maintenance of the Corporate Risk Register, the preparation of the Annual Governance Statement and the drafting of the Code of Corporate Governance as the Head of Internal Audit has responsibility for these areas and thus independent assurance on them cannot be provided by internal audit.

2.13 This gap is mitigated by the following:

- The Head of Internal Audit can provide management assurance on these areas;
- The GARMS Committee and CSB have oversight of all the areas;
- The Corporate Governance Group have oversight of the preparation of the Annual Governance Statement and the Code of Corporate Governance; and
- Some limited assurance is provided by the External Auditors.

Resources/Audit Techniques

2.14 Internal audit's resource requirements for 2018/19 have been assessed by calculating the number of audit days available based on 180 productive days per FTE member of the team, 144 or 108 days per part-time member of the team (working either 4 days or 3 days per week), 90 days for the Head of Internal Audit and 10 days for IT Audit (a specific budget) giving a total of 856 audit days available to undertake the 2018/19 plan. Using different techniques to gain assurance ranging from self-assessment of some core financial systems to sample testing a number of schools to share findings across all schools and by using risk based audit techniques to optimise the achievement of the plan, the number of audit days available is considered sufficient to deliver the proposed 2018/19 internal audit plan.

2.15 The mix of knowledge and skills within the in-house team along with the additional support provided by PwC in relation to IT is considered appropriate to deliver the plan.

Other Sources of Assurance

2.16 The work planned by the External Auditors (KPMG) has been considered in developing the internal audit plan and the assurance provided by their work will be taken into account during the course of 2018/19.

2.17 Other potential sources of assurance i.e. external reviews by reputable bodies such as Ofsted and other Councils (e.g. in relation to shared service arrangements) will be considered as they occur or are reported during 2018/19.

Links to the Corporate Vision and Priorities

- 2.18 The Corporate Plan 2016-19, entitled 'Harrow Ambition Plan 2020' sets out the Council's vision of 'Working together to make a difference for the vulnerable, communities, families and businesses'
- 2.19 The Council's strategy (priorities) to deliver its vision, between now and 2020 is to:
- Build a Better Harrow
 - Be More Business-like and Business Friendly
 - Protect the Most Vulnerable and Support Families
- 2.20 The Council's vision and the corporate priorities are taken into account when developing the internal audit plan and where appropriate specific audit reviews have been included in the plan to support individual priorities.

Corporate Anti-Fraud Team Plan 2018/19 (Appendix 1) Background

- 2.21 The incidence of fraud and corruption globally are at epidemic levels. The Annual Fraud Indicator Report published in 2017 by the UK Fraud Costs Measurement Committee (UKFCMC) estimated UK losses to be in the region of £190 billion per annum. Public Sector Fraud accounted for £40.4 billion. Harrow Council is not immune to fraud and corruption and to mitigate against these risks, an annual risk based fraud plan is developed in addition to the Internal Audit Plan 2018-19 so that fraud risks are managed in both a proactive and reactive response.

Annual Fraud Plan Process

- 2.22 The 2018/19 plan has been developed taking into consideration both internal and external factors that assess fraud risks according to their likelihood and impact. Internally, consultation has taken place with the interim Chief Executive (existing Corporate Director of Resources & Commercial) and the Corporate Directors of People and Community and the Director of Finance (s151 Officer). Careful consideration has also been given to incidents of fraud and corruption identified in 2017/18 which have been fed into the plan development. Externally, a number of national reports and trends have been reviewed and high risk fraud areas across the sector assessed accordingly and feature in the plan.

Development of the Draft Fraud Plan

- 2.23 The draft plan has been developed by drawing on a number of sources of data:-
- Alignment to the Local Government Fraud Strategy, Fighting Fraud Locally 2016-2019
 - Harrow Council Corporate Anti-Fraud & Corruption Strategy 2016-2019 (inc Fraud Response Plan)

- Findings from the delivery of fraud risk workshops during 2017/18 and the development of a fraud risk register
 - Discussions with the Head of Internal Audit and Interim Risk Manager to co-ordinate common interest work where possible;
 - The action plan developed as a result of the self- assessment against the CIPFA code undertaken in 2015/16 & 2017/18;
 - Local knowledge about known fraud risks the authority faces and fraud instances identified in 2017/18;
 - Findings from the Annual Fraud Indicator Report 2017;
 - Review of fraud and corruption trends and patterns across the UK and more specifically London;
- 2.24 Fraud and corruption threats not only remove resources from crucial front line services but can cause immeasurable social harm to individuals and communities and create poor morale amongst employees. Having a robust annual plan in place to mitigate fraud and corruption risks ensures that the authority knows what threats are faced, is able to prevent and disrupt criminals from perpetrating fraud and finally it enables the authority to react quickly when fraud does occur through a clear fraud response plan.

CIPFA Code of Managing the Risk of Fraud & Corruption

- 2.25 All activity that is undertaken by the CAFT is primarily about improving the authorities' resilience against fraud and corruption. The self-assessment against the CIPFA code for Managing the Risk of Fraud & Corruption in 2015-16 assessed the authority at 54% compliant reaching an adequate level of performance against the code. An action plan was drafted to improve the resilience and these actions have featured in both the strategy and the annual planning process.
- 2.26 A further self-assessment against the CIPFA Code was undertaken in 2017-18 and the result was a compliance level improving to 75% with the authority reaching a good level of performance against the code. Further actions have been built into the 2018/19 plan to improve fraud risk resilience and progress against the actions contained within the strategy will be reported in the 2017-18 year-end report.

Corporate Anti-Fraud & Corruption Strategy 2016-19

- 2.27 In February 2017, the refreshed Corporate Anti-Fraud & Corruption Strategy 2016-19 was reviewed by full Council and adopted into the Constitution following a thorough consultation process. The strategy was developed to reflect three key themes:
- **Acknowledge**
Firstly, that Harrow Council acknowledges that fraud and corruption risks are unavoidable and that fraud is on the increase both nationally and internationally.

- **Prevent**
Secondly, the authority is committed to preventing fraud and corruption where possible through raising awareness, through the development of a fraud risk register, through disruption and by building a robust fraud risk control environment making it tough for fraud to enter the system.
- **Pursue**
Finally, when fraud does enter the system, the Council has a sound fraud response plan in place enabling those perpetrating crimes to be pursued vigorously and brought to justice, for any losses to be recovered and for lessons to be learned to prevent reoccurrence.

2.28 The strategy sets out organisational aims and objectives aligning to the Corporate Vision and Priorities and also features a linked action plan to ensure that the organisation improves its resilience to fraud and corruption through to 2019 and beyond. The action plan and measures of success feed into the Fraud Plan developed for 2018-19.

Resources

2.29 The plan is delivered by an in house Corporate Anti-Fraud Team of 5FTE's including the Service Manager. All officers in the team are Accredited Counter Fraud Officers and two are also qualified as Accredited Counter Fraud Managers. Resources are such that it is vital that the plan developed is fraud risk based so as to direct resources at areas where financial losses and their impact are greatest.

Financial Implications

The functions of the Internal Audit and Corporate Anti-Fraud service are delivered within the budget available.

Risk Management Implications

The work of Internal Audit and the Corporate Ant-Fraud Team supports the management of key risks across the council.

There are two main risks to the achievement of the Internal Audit and Corporate Anti-Fraud plans:

- The risk of inadequate resources to achieve the plans caused by unplanned reduction in staff resource e.g. sickness, maternity leave or staff leaving; and
- The risk of higher than anticipated level of reactive work e.g. investigations and emerging risks.

These risks are mitigated by good management practices e.g. monitoring/managing of sickness absence, by keeping the teams motivated and the risk assessment of work on investigations and emerging risks.

Equalities implications

Tackling fraud protects the council's resources so that money can be spent on front line services.

Corporate Priorities

Internal audit and the Corporate Anti-Fraud Teams contribute to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support the priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 04/07/18		
Name: David Hodge	<input checked="" type="checkbox"/>	On behalf of Monitoring Officer
Date: 05/07/18		

Section 4 - Contact Details and Background Papers

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

Background Papers: None.

If appropriate, does the report include the following considerations?

1.	Consultation	YES / NO
2.	Corporate Priorities	YES / NO