

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

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**Date of Meeting:** 16 April 2019

**Subject:** Internal Audit and Corporate Anti-Fraud Plans 2019/20

**Responsible Officer:** Dawn Calvert - Director of Finance

**Exempt:** No

**Enclosures:** Appendix 1: Internal Audit & Corporate Anti-Fraud Plans 2019/20  
Appendix 2: Internal Audit Charter

## **Section 1 – Summary and Recommendations**

This report sets out the Internal Audit & Corporate Anti-Fraud Plans for 2019/20.

**Recommendations:**

The Committee is requested to: Review and approve the Internal Audit & Corporate Anti-Fraud Plans 2019/20 and the Internal Audit Charter in accordance with the Public Sector Internal Audit Standard 2020 Communication and Approval.

## **Section 2 – Report**

### **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 is required to be undertaken annually. The results of the annual assessment will be reported to the next GARMS meeting as part of the 2018/19 Year-end report.
- 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.’
- 2.4 The purpose of the plan is to enable independent and objective assurance on control, risk management and governance processes, put in place by management, to be provided to those charged with governance. This culminates in an annual report that includes an opinion that concludes on the overall adequacy and effectiveness of the Council’s framework of control, risk management and governance as required by the PSIAS.

### **Annual Plan Process**

- 2.5 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.
- 2.6 The 2019/20 plan has been developed taking into account the Council’s risk management framework. 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.
- 2.7 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 (annual report).

## **Internal Audit Strategy**

- 2.8 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.
- 2.9 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.
- 2.10 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 2019. 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.
- 2.11 Key to the successful delivery of an effective internal audit service in a rapidly changing business environment is flexibility. Flexibility has been built into the plan specifically by including 60 audit days for emerging risks in an attempt to minimise the impact they may have on the plan. Emerging risks may be identified by the Internal Audit Team, by CSB/management or by the GARMS Committee. Continual monitoring of the plan and emerging risks throughout the year and any resulting adjustments made to the plan will be reported to CSB and GARMS Committee.

## **Organisational Independence**

- 2.12 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.

2.13 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, and the preparation of the Annual Governance Statement as the Head of Internal Audit has responsibility for these areas and thus independent assurance on them cannot be provided by internal audit.

2.14 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
- Some limited assurance of these areas is also provided by the External Auditors.

## **Resources/Audit Techniques**

2.15 Internal audit's resource requirements for 2019/20 have been assessed by calculating the number of audit days available based on 180 productive days per FTE member of the team, 144 days per part-time member of the team (working 4 days), 100 days for the Head of Internal Audit and 45 days for risk management (a specific budget) giving a total of 793 audit days available to undertake the 2019/20 plan. This is slightly lower than the 2018/19 plan due to a current vacancy of an Assistant Auditor post. Using different techniques to gain assurance ranging from self-assessment of some core financial systems to sample testing of corporate processes 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 2019/20 internal audit plan.

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

## **Other Sources of Assurance**

2.17 The work planned by the External Auditors 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 2019/20.

2.18 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 2019/20.

## **Links to the Corporate Vision and Priorities**

- 2.19 The Corporate Plan entitled 'Harrow Ambition Plan - 2019' sets out the Council's vision of 'Working together to make a difference for Harrow'.
- 2.20 The Council's vision for 2019 is supported by five key priorities:  
Build a Better Harrow;  
Support those most in Need;  
Protect Vital Public Services;  
Deliver a strong Local Economy for All; and  
Modernise Harrow Council.
- 2.21 The Council's vision and the corporate priorities are taken into account when developing the internal audit plan and specific audit reviews have been included in the plan to support each of the individual priorities.

## **Corporate Anti-Fraud Team Plan 2019/20 (Appendix 1) Background**

- 2.22 The incidence of fraud and corruption globally are at epidemic levels. The most recent 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 2019-20 so that fraud risks are managed in both a proactive and reactive response.

## **Annual Fraud Plan Process**

- 2.23 The 2019/20 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 and careful consideration has also been given to incidents of fraud and corruption identified in 2018/19 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**

- 2.24 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 (due to be reviewed this year);
  - Harrow Council Corporate Anti-Fraud & Corruption Strategy 2016-2019 (inc Fraud Response Plan);
  - Findings from the development of the 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 2018/19;
  - Local knowledge about known fraud risks the authority faces and fraud instances identified in 2018/19;
  - Findings from the Annual Fraud Indicator Report 2017;
  - Findings for the International Sector Fraud Forum's *A Guide to Managing Fraud for Public Bodies*; and
  - Review of fraud and corruption trends and patterns across the UK and more specifically London.
- 2.25 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**

- 2.26 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.
- 2.27 Further self-assessments against the CIPFA Code were undertaken in 2017/18 and 2018/19 which resulted in the compliance level improving to 75% and 78% respectively indicating that the authority has reached a good level of performance against the code. Assessment against the code will continue to be undertaken annually.

### **Corporate Anti-Fraud & Corruption Strategy 2016-19**

- 2.28 The current 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.

- 2.29 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 2019/20. The strategy will be reviewed and updated during 2019/20.

## **London Counter Fraud Hub**

- 2.30 In 2016 CIPFA were successful in tendering for a contract to deliver a new hub initiative that will bring together London Boroughs with counter fraud specialists and the latest data analytics technology. CIPFA were awarded a nine year contract to deliver the hub whilst the contract will be managed initially by Ealing Council and then London Councils.
- 2.31 Four London Boroughs (Ealing, Camden, Islington & Croydon) took part in the proof of concept (POC) in running their housing, council tax and business rates data through the hub to identify anomalies that could be deemed to be fraud e.g. identifying Council Tax Single Person Discount (SPD) fraud where more than one adult appears to be residing at an address. The authority already has sound processes in place mitigating fraud risk in these areas. Following analysis of this POC, a draft business case was produced by the lead Council (Ealing) projecting the estimated return on investment and savings that participating Councils could achieve by joining the hub. It has been estimated that Harrow could achieve gross savings of £1,699,468 over the seven year contract. However advice from the pilot sites suggests that whilst no additional resources will be required for SPD or Business Rates additional resource will be required for the investigation of Housing matches (to gather intelligence, visit properties and undertake the investigation). It is estimated that this would require an additional 2 Fraud Investigators plus additional staff in Council Tax to deal with SDP, as this is currently a contract out service, resulting in an additional cost to the Council of £926,786 and once membership costs of £565,000 are taken into consideration, the estimated net profit would be £207,682 over 7 years (£29,668 per year) if the hub delivers the projected return as per the draft business case.

- 2.32 The authority has expressed a number of concerns in an e-mail sent to the lead authority and CIPFA on 28/01/19, including entering into a seven year contract with no break clause and the robustness of the data used to produce the estimated savings and has proposed joining for a trial period of 1/2 years. As yet no response has been received to this proposal.
- 2.33 Nevertheless, the authority will continue to engage with CIPFA and London Councils in 2019/20 to explore ways in which it feels that it can make the hub work and importantly to be part of a pan London exercise. Progress updates will be provided to the committee throughout the year.

## **Resources**

- 2.34 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 the Service Manager is a qualified as Accredited Counter Fraud Managers. Resources are such that it is vital that the plan developed is 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.

## **Legal Implications**

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.’

The terms of reference for the Committee include the requirement:

- to approve the internal audit charter and support the independence of Internal Audit;
- to approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources;
- to review and approve the annual Corporate Anti-Fraud Team Plan.

## **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.

Specific reviews on the Internal Audit Plan link to individual corporate risks and this is shown under 'reason for inclusion' in the plan.

### **Equalities implications**

None.

### **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.

Specific reviews on the Internal Audit Plan link to individual corporate priorities and this is shown under 'reason for inclusion' in the plan.

### **Section 3 - Statutory Officer Clearance**

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 4 April 2019		
Name: Sharon Clarke	<input checked="" type="checkbox"/>	on behalf of Monitoring Officer
Date: 2 April 2019		

### **Section 4 - Contact Details and Background Papers**

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

**Background Papers:** None