

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

Date of Meetings: 22/10/20

Subject: Internal Audit & Corporate Anti-Fraud Plans 2020/21

Responsible Officer: Dawn Calvert – Director of Finance & Assurance

Exempt: No

Enclosures: Appendix 1: Internal Audit & Corporate Anti-Fraud Plans 2020/21
Appendix 2: Internal Audit Charter 2020/21
Appendix 3: CAFT Strategy for Resuming Investigative Interviews and Visits

Section 1 – Summary and Recommendations

This report sets out the Internal Audit & Corporate Anti-Fraud Plans for 2020/21.

Recommendations:

The Committee is requested to: Review and approve the Internal Audit & Corporate Anti-Fraud Plans 2020/21, the Internal Audit Charter 2020/21 and the Internal Audit and CAFT Covid-19 Working Strategies in accordance with the Public Sector Internal Audit Standard 2020 Communication and Approval.

Section 2 – Report

Internal Audit Plan 2020/21 (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 is required to be undertaken annually.
- 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 2020/21 plan has been developed taking into account the Council’s risk management framework. Some initial consultation was undertaken with managers prior to the Covid-19 lockdown at the end of March 2020 however the normal consultation process could not be completed or the plan agreed with CSB and the GARMS Committee in the usual way due to the suspension of CSB/GARMS Committee meetings. The plan has now been revised and redrafted to reflect the work on the Council’s core financial systems, corporate governance, risk management and a number of other pieces of audit work undertaken during Q1/Q2, risks facing the Council due to Covid-19, to accommodate reviews which were unable to be completed in 2019/20,

and to reflect the need to provide an annual internal audit opinion with reduced internal audit resources.

- 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 2020.
- 2.11 Key to the successful delivery of an effective internal audit service in a rapidly changing business environment is flexibility. Recent events and reduced audit resources (caused by the Covid-19 lockdown and a vacant auditor post from April 2020) have made it difficult to build flexibility into the 2020/21 plan for emerging risks to minimise the impact they may have on the plan, as has been the practice in recent years. As a result any emerging risks identified by the Internal Audit Team, by CSB/management or by the GARMS Committee will require adjustments to be made to the plan and these 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. It should be noted that this is common across many local authorities.

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; 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 2020/21 have been assessed by calculating the number of audit days spent on the plan in Q1 and Q2 (150) and available audit days of the team for Q3 and Q4 (90 days per FTE member and 72 days per part-time member of the team (working 4 days), giving a total of 564 audit days available to undertake the 2020/21 plan. This is lower than the 2019/20 plan by 232 audit days and is due to a current auditor vacancy since April 2020 (accounting for approximately 90 days) and time lost due to Covid-19 (approximately 142 days) e.g. due to lack of IT, increased number of audit days taken to complete 2019/20 plan due to officer availability and changes required in working practices etc.) The actual days in the plan however are slightly higher at 565.

2.16 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 2020/21 internal audit plan and the mix of knowledge and skills within the in-house team is considered appropriate to deliver the plan.

2.17 Changes to the way we work as an organisation as a result of the Covid-19 pandemic has required changes to internal audit working practices. The approach to undertaking reviews in previous years has relied heavily on face to face meetings, the physical presence of an auditor within the areas, schools or establishments being audited, the physical review of some evidence (in addition to electronic evidence) and the physical review and sign-off of audit files/reports as part of the internal audit quality assurance and management review process. During the first half of the 2020/21 year with the vast majority of the Council's workforce working from home new ways of undertaking audits remotely have been developed. This includes the use of

Microsoft Teams and Zoom to conduct face to face meetings, the sharing of screens to view evidence (that cannot be physically sent), the extension of the use of electronic evidence, the reintroduction of the use of Internal Control Questionnaires, the review of standard audit programmes for schools to make them more manageable remotely, protocols for when to use different forms of communications e.g. when a face to face meeting using technology is required during the audit process and electronic review and sign-off of audit files for quality assurance and management purposes. The approach to internal audit working practices will continue throughout 2020/21 (and beyond) to ensure that the internal service remains effective.

Other Sources of Assurance

- 2.18 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.
- 2.19 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 2020/21.

Links to the Corporate Priorities

- 2.20 The Borough Plan 2030, agreed in February 2020 sets out the Council's Priorities as follows:



- 2.21 The Council's priorities are taken into account when developing the internal audit plan.

Summary of Work undertaken in Quarters 1 and 2

2.22 During Q1 and Q2 of 2020/21 the Internal Audit Team worked on the following:

- Completion of the 2019/20 plan of work;
- 2020/21 core financial systems reviews;
- Annual review of governance and the Annual Governance Statement;
- Corporate Risk Register Q1 & Q2;
- Resources Directorate Risk Register;
- Depot – Additional Works Review
- Covid-19 Business Grants (see paragraph 2.36 below)
- Replacement ERP System
- Purchase Card Expenditure during Covid19
- Social Value Review

Corporate Anti-Fraud Team Plan 2020/21 (Appendix 1) Background

2.23 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

2.24 The 2020/21 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 been more limited than usual due to the Covid-19 Pandemic. Careful consideration has also been given to incidents of fraud and corruption identified in 2019/20 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

2.25 The draft plan has been developed by drawing on a number of sources of data:-

- A review of recently published Local Government Fraud Strategy, Fighting Fraud & Corruption Locally 2020 (FFCL); a strategy for the 2020's

- A review of Harrow Council's Corporate Anti-Fraud & Corruption Strategy 2016-2019 (inc Fraud Response Plan)
- A review of the fraud risk register;
- Discussions with the Head of Internal Audit and Interim Risk Manager to co-ordinate common interest work where possible;
- Local knowledge and intelligence about known fraud risks the authority faces and fraud cases identified during 2019/20;
- Findings for the International Sector Fraud Forum's A Guide to Managing Fraud for Public Bodies; and
- A review of The Financial Cost of Fraud 2019; a publication by Crowe UK and Portsmouth University to measure world losses to fraud (inc the UK)
- Review of fraud and corruption trends and patterns across the UK and more specifically London.
- Weekly Cifas Intelligence bulletins on Covid-19 fraud risks, attendance at quarterly Cifas Local Authority Business Sector Working Group meetings and quarterly Cifas Organised Fraud Cross Sector Meetings

2.26 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

2.27 The CIPFA Fraud Code which the authority has been using to self-assess its corporate counter fraud response has been replaced by the Local Government strategy for counter fraud and corruption; Fighting Fraud & Corruption Locally 2020. The recently updated strategy contains new pillars of activity, to add to Acknowledge, Prevent and Pursue, namely 'Govern' and 'Protect' which will require the authority to undertake some improvement work to ensure that anti-fraud and bribery measures are embedded and that there is greater executive support for anti-fraud arrangements and also that the authority seeks to protect itself from organised fraud. In addition to the new pillars, the strategy also contains a Local Response Section which sets out what activities different roles in the organisation should carry out to ensure good governance, and a helpful checklist that the authority will undertake a self-assessment against to drive improvements and any action plan. This work will be contained in the review of the Corporate Anti-Fraud & Corruption Strategy.

Corporate Anti-Fraud & Corruption Strategy 2016-19

2.28 The Council's Strategy will be reviewed to ensure it aligns closely to FFCL 2020 and subsequent to a self-assessment against the checklist

contained in the strategy, an improvement plan will be commenced so that authority fully mitigates where possible the current fraud and corruption risks.

London Counter Fraud Hub

2.29 Exploring the London Counter Fraud Hub project has also been removed from the plan for 2020/21 as no further updates have been received from CIPFA regarding a change in pricing model. In March 2020 the Head of Internal Audit and the CAFT Service Manager attended a showcase session to review the rebranded Cipfa Counter Fraud Hub, but the pricing model had remained pretty much the same which offered no value for money to the authority so with the absence of any pricing flexibility changes from CIPFA, the authority will not be joining. It also should be stated that the project has not gone live for any other local authority either as there are insufficient authorities joining

Resources

2.30 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.

2.31 As members of the CAFT have been working from home since April 2020, all investigation visits and interviews ceased. Appendix 3 contains details for the resumption of this work.

Summary of Work Undertaken Quarters 1 and 2

2.32 During Quarter 1 and 2 the Corporate Anti-Fraud Team worked on the following:

- Covid-19 Business Grants

The Head of Internal Audit and the CAFT Service Manager fed into the process developed for assessing applicants for business grants under the three main schemes launched by the Department for Business, Energy and Industrial Strategy (BEIS). Team members in both Internal Audit & CAFT assisted Revenues in processing the applications in a timely manner and the CAFT also acted as a fraud liaison point of contact with BEIS in gaining access to the 'Spotlight' checking system and the Experian 'bank wizard' tool which provided risk based intelligence from 3rd party sources to assist Revenues in determining the applications. All told, in excess of 1500 applications were washed through the Spotlight system and 600 applications were washed through the Experian bank wizard tool and a risk based summary

provided with each data output which enabled Revenues to make decisions on applications. A number of investigations into grant payments are currently underway.

- National Fraud Initiative

The CAFT has supported business areas providing data for the bi-annual exercise ensuring that privacy notices were up to date

- Housing fraud

Two Right to Buy applications were intercepted as the applicants were unable to pass anti money laundering checks

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.

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels Date: 12/10/20	<input checked="" type="checkbox"/>	On behalf of Chief Financial Officer
Name: Chris Date: 12/10/20	<input checked="" type="checkbox"/>	On behalf of Monitoring Officer

Section 4 - Contact Details and Background Papers

Contact: Susan Dixon, Head of Internal Audit & Corporate Anti-Fraud

Background Papers: None.

If appropriate, does the report include the following considerations?

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