



**Report for:                    GOVERNANCE, AUDIT,  
RISK MANAGEMENT &  
STANDARDS  
COMMITTEE**

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<b>Date of Meeting:</b>	21 September 2022
<b>Subject:</b>	Internal Audit & Corporate Anti-Fraud Plans 2022/23
<b>Responsible Officer:</b>	Dawn Calvert – Director of Finance & Assurance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1: Internal Audit & Corporate Anti-Fraud Plans 2022/23 Appendix 2: Internal Audit Charter 2022/23

# **Section 1 – Summary and Recommendations**

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This report sets out the 2022/23 Internal Audit & Corporate Anti-Fraud Plans and the Internal Audit Charter.

## **Recommendations:**

The Committee is requested to: Review and approve the Internal Audit & Corporate Anti-Fraud Plans 2022/23 and the Internal Audit Charter 2022/23 in accordance with the Public Sector Internal Audit Standard 2020 Communication and Approval.

The Committee is also asked to note the annual plan process, the Internal Audit Strategy, the service's organisational independence, the resources available to complete the plan, audit techniques to be used and other sources of assurance, as covered within this report.

## **Section 2 – Report**

### **Internal Audit Plan 2021/22 (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 During 2021/22 the Internal Audit Team was involved in a substantial amount of work in relation to the significant governance gap detailed in the Draft AGS and this as well as having a number of vacant posts had a significant impact on the completion of the 2021/22 Internal Audit plan. As a consequence much of the plan is being carried forward to the 2022/23 plan and these reviews identified in the attached plan with an \*. The rest of the plan consists of reviews that are included annually e.g. core financial system reviews, the annual governance review, risk management work and schools and a few new reviews relating to the significant governance gap and/or other issues identified during 2021/22 e.g. Fraud Risk and Leaseholder Charges. The plan has been developed taking into account the Council's risk management framework.
- 2.7 For the 2021/22 plan consultation with the GARMS Committee began in January 2021 and the draft plan was presented to the Committee in April 2021. For the 2022/23 plan this was not possible due to the elections in May and the resulting cancellation of the April Committee meeting. As there is now a new Committee and our usual consultation process has not been possible a small amount of time has been included in the plan to enable a review(s) to be undertaken on an area identified by the GARMS Committee – it should be noted that any suggestions will need to be risk assessed before the Head of Internal Audit agrees to include them in the plan.
- 2.8. Consultation with officers has been undertaken as set out in Appendix 1 and included key senior managers across the Council as well as the Corporate Strategic Board (CSB).
- 2.9 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) and included in the Annual Governance Statement.

## **INTERNAL AUDIT STRATEGY**

- 2.9 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.

- 2.10 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.
- 2.11 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). An Access Agreement is also in place to a Framework Contract with PWC for the provision of Internal Audit Services which can be used for technical IT Audits. The Audit Charter has been reviewed and updated for 2022 with minimal changes.
- 2.12 Key to the successful delivery of an effective internal audit service in a rapidly changing business environment is flexibility. Resources available make it difficult to build flexibility into the 2022/23 plan for emerging risks to minimise the impact they may have on the plan, however a small allowance has been made in the plan and in addition emerging risks identified by the Internal Audit, by CSB/management or by the GARMS Committee that require adjustments to be made to the plan will be reported to CSB and GARMS Committee.

## **Organisational Independence**

- 2.13 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.
- 2.14 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.
- 2.15 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

- 2.16 Internal audit's current available resources for 2022/23 have been assessed by calculating the number of audit days available based on 2@ 180 productive days (FTE members of the team) + 1@144 days (member of the team working 4 days a week) + 2@ 90 days (the Head of Internal Audit and the Risk Manager) giving a total of 684 audit days available to undertake the 2022/23 plan. This is more resources than available during 2021/22 but lower than the 2020/21 resources due to an auditor vacancy due to retirement (a reduction of 180 audit days), and the end of the Risk Manager's contract at the end of September (a reduction of 90 risk days).
- 2.17 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 2022/23 internal audit plan and the mix of knowledge and skills within the in-house team is considered appropriate to deliver the plan.
- 2.18 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 2020/21 with the vast majority of the Council's workforce working from home new ways of undertaking audits remotely were developed and continue to be used into 2021/22. This includes the use of Microsoft Teams 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. With the move back to working more in the office the approach to internal audit working practices will continue to be reviewed and developed throughout 2022/23 to ensure that the internal service remains effective.

## Other Sources of Assurance

- 2.19 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 2022/23.
- 2.20 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 2022/23.

## **Corporate Anti-Fraud Team Plan 2021-22 (Appendix 1) Background**

- 2.21 Fraud is now the most common crime in England and Wales costing the UK economy in the region of £137bn annually. According to the Office for National Statistics in England and Wales Crime Survey (year ending December 2021), fraud increased 41% to 5.2 million offences when compared to the same period for the year ending December 2019. Fraud is not a victimless crime; it causes untold harm to individuals and communities.
- 2.22 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 2022-23 so that fraud risks are managed in both a proactive and reactive response.

## **Annual Fraud Plan Process**

- 2.23 The 2022/23 plan has been developed taking into consideration both internal and external factors that assess fraud risks according to their likelihood and impact. A new methodology for assessing fraud risks for the purposes of plan development has been undertaken to fall in line with the authorities' established risk assessment process. Careful consideration has also been given to incidents of fraud and corruption identified in 2021/22 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 & Corruption Locally Strategy (FFCL) 2020
  - A review of the authorities' Corporate Anti-Fraud & Corruption Strategy (inc Fraud Response Plan);
  - Discussions with the Head of Internal Audit and Interim Risk Manager to co-ordinate common interest work where possible;
  - Local knowledge about known fraud risks the authority faces and fraud instances identified in 2021/22;
  - Findings from the Financial Cost of Fraud 2021 Crowe UK and The University of Portsmouth;
  - 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 critical 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.

## **Corporate Anti-Fraud & Corruption Strategy 2022-26**

2.26 The Council strategy was developed to reflect three key themes:

- Firstly, acknowledge that Harrow Council acknowledges that fraud and corruption risks are unavoidable and that fraud is on the increase both nationally and internationally.
- Secondly, prevent fraud. 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.
- Finally, pursue 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.

2.27 When FFCL was refreshed in 2020 it retained the three pillars of activity that had been central to the strategy in 2011 and 2016; this being Acknowledge, Prevent and Pursue, but in addition to these a further two were added, namely Govern and Protect. The Govern pillar was included to ensure that local authorities should have in place a 'tone from the top' and the Protect pillar about ensuring it had protection against serious and organised crime. The Council's strategy was due to be reviewed in 2021/22 however owing to the involvement of the Corporate Anti-Fraud Manager in the work on the significant governance gap, mentioned above, during 2021/22 this work will be carried forward to 2022/23.

2.28 Once the current Council fraud strategy is refreshed in year, an action plan to meet the gaps will be drafted and activity commenced during the year to close any gaps. One such gap already identified and action taken to address it is the fraud awareness training which is being made mandatory every two years for all staff which will improve the authorities' fraud risk resilience.

## **Other projects**

2.29 The authority will continue its partnership with Cifas to prevent fraud and corruption entering the organisation or at least identifying as early as possible with continued access to the National Fraud Database, and in addition to this will launch its staff vetting project with agency staff being vetted before commencing work with Harrow in Q2 and for permanent staff in Q4.

2.30 Continuing its trailblazing work, the authority will embark upon a partnership with Synalogik Innovative Solutions and explore a proof of concept to identify and investigate Organised Crime Groups (OCGs) working alongside the

Department for Business, Energy & Industrial Strategy (BEIS), University of the West of England & the software suppliers Synalogik Innovative Solutions.

## **Resources**

2.31 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.

## **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 follow requirements:

- 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.

## **Financial Implications**

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

## **Risk Management Implications**

Risks included on corporate or directorate risk register? The risks included on the Corporate Risk Register were reviewed and taken into account in preparation of the Internal Audit Plan 2022/23.

Separate risk register in place? No, however risk assessments are undertaken to support reviews included in the plan that are not on the Corporate Risk Register.

The relevant risks contained in the register are attached/summarised below. **N/A**

The following key risks should be taken into account when agreeing the recommendations in this report:

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

Risk Description	Mitigations	RAG Status
The risk of inadequate resources to achieve the plans caused by unplanned reduction in staff resource e.g. sickness, maternity leave or staff leaving.	<ul style="list-style-type: none"> <li>▪ Ongoing consideration of techniques used to achieve the plan</li> <li>▪ Recruitment</li> <li>▪ Sickness monitoring/management</li> <li>▪ Team motivation</li> </ul>	
The risk of detrimental level of reactive work e.g. investigations and emerging risks	<ul style="list-style-type: none"> <li>▪ Flexible plan approach</li> <li>▪ Risk assessment of work on investigations and emerging risk</li> </ul>	

## **Equalities implications / Public Sector Equality Duty**

Decision makers should have due regard to the public sector equality duty in making their decisions. The equalities duties are continuing duties they are not duties to secure a particular outcome.

The statutory grounds of the public sector equality duty are found at section 149 of the Equality Act 2010 and are as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;

- (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
- (c) Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities. Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) Tackle prejudice, and
- (b) Promote understanding.

Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act. The relevant protected characteristics are:

- Age
- Disability
- Gender reassignment
- Pregnancy and maternity
- Race
- Religion or belief
- Sex
- Sexual orientation
- Marriage and Civil partnership

The Internal Audit plan will have positive equalities impacts for example ensuring and measuring compliance with HR policies and the financial management of schools to give two examples.

## **Council 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**

**Statutory Officer: Dawn Calvert**

Signed by the Chief Financial Officer, Dawn Calvert

**Date:** 21/07/22

**Statutory Officer: Caroline Eccles**

Signed on behalf of the Monitoring Officer, Hugh Peart

**Date:** 22/07/21

**Chief Officer: Charlie Stewart**

Signed by the Corporate Director, Charlie Stewart

**Date:** 25/07/22

## **Mandatory Checks**

**Ward Councillors notified: NO, as it impacts on all Wards**

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

**Contact:** Susan Dixson, Head of Internal Audit & Corporate Anti-Fraud,  
02084241420

**Background Papers:** None.

If appropriate, does the report include the following considerations?

- |                 |          |
|-----------------|----------|
| 1. Consultation | YES / NO |
| 2. Priorities   | YES / NO |