

Report for: Corporate Committee – 3 December 2020

Title: Audit & Risk Service Update
Quarter 2 (Jul – Sept 2020)

Report authorised by: Assistant Director of Corporate Governance

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Ward(s) affected: N/A

**Report for Key/
Non-Key Decision: Information**

1. Describe the issue under consideration

- 1.1 This report details the work undertaken by the in-house Audit and Fraud Resources team, as well as our outsourced partner Mazars, for the quarter ending 30 September 2020. A combined report has been produced to update the Committee as during quarter two the team continue to face the unprecedented circumstances of all working remotely from the Council offices due to COVID-19.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

- 3.1 The Corporate Committee is recommended to note the activities of the team during quarter two 2020/21.

4. Reasons for decision

- 4.1 The Corporate Committee is responsible for monitoring the effectiveness of the Council's Internal Audit Strategy; policies on Anti-Fraud and Corruption and receiving assurance with regard the Council's internal control environment and mechanisms for managing risk. In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee with regards Audit and Anti-Fraud efforts and at bi- annually updates on Risk Management are provided.

5. Alternative options considered

- 5.1 Not applicable.

6. Background information

- 6.1 The information in this report has been compiled from information held by Audit & Risk Management.

7. Contribution to strategic outcomes

- 7.1 The Audit & Risk team makes a significant contribution through its pro-active work in ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

There are no direct financial implications arising from this report although the impact of Covid-19 on planned activity has been clearly highlighted throughout the report. The work completed by the Team is funded from within the Audit and Risk Management revenue budget. The maintenance of a strong proactive and reactive fraud investigation team is a key element of the Council's system of Governance.

8.2 Legal

The Council's Deputy Monitoring Officer has been consulted in the preparation of this report and has no comments.

8.3 Equality

The Council has a public sector equality duty under the Equality Act (2010) to have due regard to:

- tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation.
- advance equality of opportunity between people who share those protected characteristics and people who do not.
- foster good relations between people who share those characteristics and people who do not.

The Audit & Risk team is required to demonstrate a strong commitment to equality and fairness in their actions and work practices, and adherence to the Equality Act 2010 and this is built into the team's operational procedures. Ensuring that the Council has effective counter-fraud arrangements in place will assist the Council to use its available resources more effectively.

9. Local Government (Access to Information) Act 1985

Not applicable.

10. Performance Management Information

- 10.1 Local performance targets have been agreed for Audit and Risk Management, these are reported against in the sections below.

11. INTRODUCTION

- 11.1 This report covers the period from 01 July 2020 to 30 September 2020.
- 11.2 The Team's in-house resources have not been significantly impacted resource level wise by COVID-19 in quarter two. Business continuity plans were enacted in March the working practices of the team have adapted to enable the team to continue to fulfil its role in the council. Risk assessments exist locally and to meet corporate requirements, to ensure safe working practices whilst identifying new ways of working, that reduce the need for face to face contact as much as possible.
- 11.3 The members of the team who were redeployed and on carers leave, in quarter one, have returned to work in the team for quarter two. The level of resource provided by Mazars also increased again in July to enable the work to deliver the audit plan to recommence and service teams operate again in a 'new' business as usual way. The business grant project's the council has been required to deliver since April 2020 have had the most significant impact on the work of the team. The resources required to support this project and provide assurance both pre-payments to prevent fraud and risks related to non-compliance with the guidance and also post payment and post event assurance, is estimated to have equated to two FTEs throughout quarter two.
- 11.4 The Management Team continues to meet twice a month. Daily calls with teams remain in the diary throughout the quarter to ensure health and wellbeing although these are attended less frequently now and more on a needs basis due to the current workloads. Ad hoc meetings can be started by anyone in the team when required using the 'Teams' technology available to all IT enabled council officers.

12. INTERNAL AUDIT

- 12.1 In quarter two the internal audit resources available to the council start to return to normal with Mazars colleagues who had been furloughed returning which enabled our new core team to be fully operational. The new team includes more focus on specialist areas of expertise particularly, relating to housing and IT. The Council's Internal Audit in house resources working to deliver the audit plan in quarter two has been equivalent to 0.7 FTE. The Head and Deputy Head of Audit and Risk have invested time, as in quarter one, continuing to respond to the changing needs of stakeholders during the period. The audit plan was reviewed and re approved to ensure COVID risks were considered. Audit continues to be flexible and agile to support the work of service and responding to new and emerging risks by providing advice and guidance.
- 12.2 The Head of Audit & Risk has continued to work with the Council's Director of Finance and Monitoring Officer to ensure that the governance framework remains robust and offering both general and specific risk advice to support Directors, as over the summer we saw a return to a new business as usual environment. Meetings of the Statutory Functions Board have taken place fortnightly throughout quarter two providing a timely forum for formal discussion about statutory responsibilities to take place.

- 12.3 The Head and Deputy Head of Audit & Risk have continued to be involved with the two Emergency Business Grant projects the Council has delivered as well as new ones relating to discretionary grants, in response to government policy, and the voluntary community sector grants which was a local scheme. Our role has been in an advisory capacity supporting the project team to quantify risk and make informed decisions regarding process and control. As the project to make payment on the main grant scheme drew to a close in September the focus of our work will moved to increased post payment assurance work and embarking on the post event work required by central government.
- 12.4 Troubled Families returns have been audited and assurances provided to the Department for Ministry of Housing, Communities and Local Government (MHCLG) that the information provided by the Troubled Families Team in pursuit of funding is correct.
- 12.5 There has been significant planning work undertaken by Mazars with regards the 2020/21 Internal Audit Plan which will need to be delivered in a reduced timeframe to ensure the assurances required for the 2020/21 Head of Internal Audit Opinion are available. Risk-based systems audits have recommenced however none were at a final report stage at the end of quarter two.

13. RISK MANAGEMENT

- 13.1 For 2020/21 a service objective was to strengthen risk management in the Council, again this planned work continues to been adjusted to provide input and support to management regarding the risk arising due to Covid-19 and also those that may increase over time. A Covid-19 risk register was created focussing on both internal and external risks. These were reported to Statutory Functions Board and will continue to be monitored throughout 2020/21 until all risks are closed or moved onto other business as usual risk registers.
- 13.2 As noted above the team have advised management to support risk management decisions in the two grants projects in quarter two. Fraud risks were inherently high in both projects and significant work by the project teams needed to be undertaken to manage this risk to within the Council's risk appetite. The lessons learned from these projects are being fed into other similar grant distributing projects.
- 13.3 In quarter two the Head and Deputy Head of Audit were invited to join the IT service for their periodic review of their risk register. It is noted that the approach to 'formal' risk management activity is maturing in this area. An audit on cyber security was in progress in quarter two and the findings will be fed into the risk register to support management in mitigating this high inherent risk area.
- 13.4 There has also been significant activity noted in the Programme to deliver new homes in the Borough. The Risk Management activities have bedded into the project and programme governance.

14. ANTI-FRAUD ACTIVITY

- 14.1 The team undertake a wide range of anti-fraud activity but have two work areas where annual performance targets are in place. One relating to Tenancy Fraud and the other Right to Buy Fraud. These targets have been consistently achieved in recent years. Financial values can be assigned to these outcomes based on the discounts not given and the estimated value of providing temporary accommodation to a family. The Audit Commission, when in existence, valued the recovery of a tenancy, which has previously been fraudulently occupied, at an annual value of £18,000, as noted above this related to average Temporary Accommodation (TA) costs. No new national indicators have been produced; therefore, although this value is considered low compared to potential TA costs if the property has been identified as sub-let for several years, Audit and Risk Management continue to use this figure of £18k per property for reporting purposes to provide an indication of the cost on the public purse of fraud activity.

14.2 Table 1 Local Performance Targets – anti fraud activity

Performance Indicator	Q2	YTD	Financial Value	Annual Target
Properties Recovered	7	10	£180k+	50
Right to Buys prevented	15	38	£4m +	80

14.3 Tenancy Fraud – Council properties

- 14.4 The Fraud Team works with Homes for Haringey (HfH) to target and investigate housing and tenancy fraud, which forms part of HfH's responsibilities in the Management Agreement. HfH continue to fund a Tenancy Fraud Officer co-located within the Fraud Team.
- 14.5 The Fraud Team will continue to work with HfH to identify the most effective use of fraud prevention and detection resources across both organisations to enable a joined up approach to be taken, especially where cases of multiple fraud are identified e.g. both tenancy fraud and right to buy fraud. Covid-19 has obviously impacted on outcomes in comparing activity to the same period in 2019 we note that 98 referrals were received 2019: 38 referrals 2020. 26 properties were recovered at this point in 2019 compared to the ten noted above.

14.6 Table 2 Tenancy Fraud Activity and Outcomes

Opening Caseload	191	
New Referrals received	24	
Total		215
Properties Recovered	7	
Case Closed – no fraud	12	
Total		(-) 19
Ongoing Investigations		196

14.7 Of the 196 ongoing investigations; 2 files are being prepared for prosecution and 107 of these cases (55%) are with other teams for action. Properties will be included in the 'recovered' data when the keys are returned, and the property vacated.

14.8 Right-to-buy (RTB) applications

14.9 As at 30 September 2020 there were approximately 218 ongoing applications under investigation. As predicted in the quarter one report the applications received increased again, back to business as usual levels, in quarter two after low numbers in quarter one. The team reviews every RTB application to ensure that any property where potential tenancy, benefit or succession fraud is indicated can be investigated further. The numbers of tenants applying to purchase their properties under the Right to Buy legislation has been reducing in recent years and whilst the reasons are not known with certainty, two possibilities are perceived to be (i) as valuations continue to rise and (ii) increased awareness in the council's robust due diligence around money laundering.

14.10 During Q2, 15 RTB applications were withdrawn or refused either following review by the fraud team and/or due to failing to complete money laundering processes. Year to date outcomes total 38. This performance is not significantly down on the same period in 2019 when the outcome was 41.

14.11 COVID-19 prevented visits from taking place, based on risk other mechanisms of assurance have been deployed to ensure statutory timescales in the process are met. It is noted that for applications received in quarter two no visit took place, by the Homes for Haringey team. In quarter two the fraud team did undertake urgent visits based on a risk assessment, where desk-based checks did not meet our risk appetite. The change in guidance as a result of the national lockdown will be considered in risk assessment for quarter three activity.

14.12 **Gas safety – execution of warrant visits**

The Fraud Team accompany warrant officers on all executions of 'warrant of entry' visits where it is suspected that the named tenant is not in occupation. This activity has not been undertaken in quarter two and we are in liaison with Homes for Haringey as we understand it will recommence in quarter three. This activity not taking place for over half of the year will have an impact on our results potentially as it is noted that at end of Q2 in 2019/20 12 property recoveries had been achieved as a direct result of these visits and the team had another 10 active investigations.

14.13 **Pro-active counter-fraud projects**

During 2020/21, the Fraud Team will continue with a number of pro-active counter-fraud projects in areas that have been identified as a high fraud risk. Progress reports on this work will be reported to the Corporate Committee during the year; the findings and outcomes are all shared with service managers as the projects are delivered. In Q2 the proactive efforts have been focused on the new grants projects and reviewing any complex cases to assist management in making robust decisions that are compliant with the guidance and approved scheme.

14.14 **No Recourse to Public Funds (NRPF)**

As at 30 September, 30 referrals have been received and responded to by the Fraud Team in this financial year. Eight were received in quarter two. This compares to ten for quarters one and two in 2019/20. The role of the Fraud Team is to provide a financial status position for the NRPF team to include in their overall Children and Family Assessment. The average cost of NRPF support per family (accommodation and subsistence for a two-child household) is around £20,000 pa.

14.15 **Internal employee investigations**

In accordance with the Council's Constitution, the in-house Fraud Team investigates all allegations of financial irregularity against employees. Four (4) employee investigations were in progress at the start of quarter two, no new referrals were received by the team during the period.

The Fraud Team work closely with officers from HR and the service area involved to ensure that the investigation is completed as quickly as possible.

14.16 **Whistleblowing Referrals**

The Head of Audit and Risk Management maintains the central record of referrals made using the Council's Whistleblowing Policy. In quarter two the three quarter one whistle blowers were closed. Two new referrals were made during quarter two.

14.17 **Prosecutions**

As at 30 September 2020 one Tenancy Fraud cases have been prepared and are with Legal Services for a Court application. One further prosecution is in progress for Homes for Haringey.