

Report for: Corporate Committee – 4 February 2021

Item number: 8

Title: Audit & Risk Service Update
Quarter 3 (Oct – Dec 2020)

Report authorised by: Director of Finance

Lead Officer: Minesh Jani, Head of Audit and Risk Management
Tel: 020 8489 5973
Email: minesh.jani@haringey.gov.uk

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, as well as our outsourced partner Mazars, for the quarter ending 31 December 2020. A combined report has been produced to update the Committee as during quarter three 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 three 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 and Deputy Monitoring Officer

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 Head of Legal and Governance (interim) 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 September 2020 to 31 December 2020.
- 11.2 The Team's in-house resources have not been significantly impacted resource level wise by COVID-19 in quarter three. 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 Mazars new core audit team, formed this financial year to better serve the council and its future service needs, continue to be inducted into the Council. Work planned in quarter two has been delivered and reports finalised or booked to commence in quarter four. There was good engagement in quarter three with both planning and audit fieldwork, recognising the challenges the team faces in delivering sufficient audit assurances to support a robust Head of Internal Audit Opinion. More information regarding progress with the plan is included later in this report and a summary of outcomes from work completed by Mazars is included in an appendix to this report. The Chair of Committee has also requested an update on the status of the approved audit plan, this could not be produced in time for the agenda but will be shared with Members, going forward, in the same way audit summaries are shared quarterly.
- 11.4 Although resources have been stable during the period the demand on the services remains very high. This is both from an audit and risk perspective and the business grant projects continue to be a priority area of resource allocation for the anti-fraud team also. The resources required to support this project and provide assurance relate to both the pre-payment stage of the process to prevent fraud and risks related to non-compliance with the guidance and also post payment and post event assurance, this work is estimated to have equated to three FTEs throughout quarter three.

12. INTERNAL AUDIT

- 12.1 In quarter three the new team from Mazars have increasingly embedded and built links with management across the Council, audit work has progressed, and six assignments have been finalised by the end of the quarter with significant planning work for quarter four audits also being completed. The Head and Deputy Head of Audit and Risk continue to support the efficient delivery of added value work and continues to support the work of services and responding to new and emerging risks by providing advice, guidance or undertaking focused audit assignments to provide assurances.
- 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 three providing a timely forum for formal discussion about statutory responsibilities to take place.

- 12.3 The Deputy Head of Audit & Risk has continued to be involved with the Emergency Business Grant projects the Council has delivered, in quarter three new grant allocations have been made for distribution for the periods since October 2020 when the Borough was placed in Tier 2. Our role in November and December has been in an advisory capacity supporting the project team to quantify risk and make informed decisions regarding process and control. During October and November work was completed on the post event assurance requirements by central government and this work will continue into 2021, monthly updates were submitted throughout quarter three.
- 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 The reports finalised in quarter 3 three and those that reached the draft stage of the process are outlined in Appendix 1 of this report. Two limited assurance system reports have been issued relating to Declarations of Interest and Cyber Security. Four Adequate Assurance School reports have been finalised. One audit relating to Right to Buy Buy-Back is with management in draft form. Summaries of the limited assurance reports are detailed below.
- 12.6 Declaration of Interests – Limited Assurance
A robust process for declarations of interest and commitment to the application of the Nolan principles in everything we do is a key element of the governance framework. The honesty principle states that "Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest." The reputational risk to the council is high where there are perceived or actual conflicts of interest there are risks around achievement of value for money where decisions are not taken with the best interest of the council at the centre of the decision making.
- 12.7 The audit raised one priority, two priority 2 and three priority 3 recommendations. The audit noted where enhancements to the Code of Conduct, Corporate Inductions and how records are updated and held could strengthen control and also that there were weaknesses with regards long standing agency workers, who might be in decision making roles, updating declarations.
- 12.8 Cyber Security – Limited Assurance
Recent cyber security events in Local Government, the NHS and outside of the public sector have amplified the risks in regard to cyber security. In addition, the rapid deployment of remote working as a result of COVID-19, increases the likelihood that security gaps were not effectively mitigated due to the priority of deploying at pace remote working and continuing service delivery. For many organisations and those in Local Government, cyber security is now commonly a top ten strategic risk and certainly features as the top technology-based risk at an operational level.

- 12.9 The audit raised two priority 1 and eight priority 2 recommendations. A further three housekeeping issues were raised. The audit noted digital services were not promptly informed of staff leaving the organisations. This potentially allows staff who have left the Council may access our systems. The other area of priority 1 recommendation related to implementing recommendations raised from the penetration testing in a timely manner.
- 12.10 Summaries of all audit outcomes are shared with Corporate Committee Members outside of the meeting reporting cycle. The team will follow up the agreed actions within audit reports as part of the 2021/22 audit plan, failure to address weaknesses identified will be escalated to Senior Management and updates on progress to mitigate risk in these areas will be provided to Committee.

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 be 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 and beyond 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 three. Fraud risks are 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 highest residual fraud risks for Haringey are currently (i) Relief eligibility breaches i.e., businesses had claimed relief on multiple premises beyond the entitlements (ii) Use of premises, liability for business rates, business activity or trading status of the business being falsely presented in application and evidenced by false documentation (iii) non-compliance with State-Aid Rules. As noted in other sections of this report, significant risk management activity has taken place to prevent fraud from occurring in the grant projects and post event assurance work will confirm any fraud that occurred despite these mitigating actions. Once identified any fraud cases will be pursued in accordance with the Council's fraud strategy and adhering to guidance provided by central government.
- 13.3 In quarter three the Head and Deputy Head of Audit and Risk continue to work with management teams, attending management team meetings to review and challenge their risk registers, this activity also informs the pre audit planning work for 2021/22 as we explore with managers emerging risk areas.
- 13.4 An update of the BREXIT risk register was completed in quarter three.

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	Q3	YTD	Financial Value	Annual Target
Properties Recovered	6	16	£288k+	50
Right to Buys prevented	15	53	£5.5m+	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 176 referrals were received in this period and 75 for 2020. 45 properties had been recovered at this point in 2019 compared to the 16 noted above.

14.6 Table 2 Tenancy Fraud Activity and Outcomes

Opening Caseload	196	
New Referrals received	31	
Total		227
Properties Recovered	6	
Case Closed – no fraud	19	
Total		(-) 25
Ongoing Investigations		202

14.7 Two Tenancy Fraud files are being prepared for prosecution and 123 of these cases (61%) 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 31 December 2020 there were approximately 236 ongoing applications under investigation. As predicted in the prior reports the applications received increased again, back to business-as-usual levels, in quarter three after lower numbers earlier in the year. The team reviews every RTB application to ensure that any property where potential tenancy, benefit or succession fraud is indicated can be investigated further.

14.10 During quarter three, 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 53. This performance has started to fall behind compared to the same period in 2019 when the outcome was 67. Covid-19 is impacting on the timeline in many processes both internally but also within the banks we work with on these cases.

14.11 At the end of quarter two and start of quarter three some urgent visits took place, where assurances could not be gathered using desktop approach. This was reassessed as the quarter went on and the restrictions increased within the Borough. It is noted that for applications received to date in 2020 no visit took place, by the Homes for Haringey team. With restrictions so high currently the fraud team are unable to visit also however additional desk-based checks are being completed to mitigate the increased risk.

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 recommenced at the end of quarter three however due to number already involved in these visits the fraud team were unable to attend. This activity not taking place for over half of the year will have an impact our results potentially as it is noted that at end of Q3 in 2019/20 18 property recoveries had been achieved as a direct result of these visits and the team had another 9 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. As outlined elsewhere in this report or resource for proactive fraud work, 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 31 December, 43 referrals have been received and responded to by the Fraud Team in this financial year. Seven were received in quarter three. This compares to 13 for the period 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 noted in earlier quarterly reports were all closed by the end of quarter two. There are two new employee related investigation on-going currently.

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. Six new referrals were made during quarter three. Of these two were retained for audit investigation, one was closed immediately and three were passed to management and HR as were more appropriately dealt with under other Council policies. Both investigations were on-going at the end of quarter three.

14.17 **Prosecutions**

As at 31 December 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.