

Report for: Corporate Committee – 10 March 2022

Title: Audit & Risk Service Update
Quarter 3 (October - December 2021)

Report authorised by: Director of Finance

Lead Officer: Minesh Jani, Head of Audit and Risk Management

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 Risk team as well as our outsourced partner Mazars, for the quarter ending 31 December 2021.

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 of 2021/22.

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. 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.

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 Head of Legal & Governance (Monitoring Officer)

8.1 Finance and Procurement

There are no direct financial implications arising from this report.

8.2 Legal

The Council's Head of Legal and Governance has been consulted in the preparation of this report, and in noting the progress made with delivering the Audit Plan, and the activities undertaken in relation to risk management and anti-fraud, advises that there are no direct legal implications arising out of the report.

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 1 October 2021 to 31 December 2021 and summarises the work of the Audit & Risk Service in relation to Audit, Risk and Fraud.
- 11.2 The Audit & Risk Service consists of a Head and Deputy Head of Audit & Risk, six Fraud Investigators, and the Assistant Investigator post, which is currently vacant. The operational delivery of the audit plan is undertaken by Mazars.

12. INTERNAL AUDIT

- 12.1 After a late start to the 2021/22 audit plan delivery due to COVID-19 impacting the prior years' work, some momentum of delivery was achieved in quarter three. The Head and Deputy Head of Audit and Risk continues to support the efficient delivery of added value work and continue 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. Senior Management have requested some changes to the 2021/22 audit plan because of emerging risks and issues in the council and these requests have been considered and the plan amended as required. Flexibility in the annual audit plan is essential to ensure the assurance needs, both statutory and those of management and members are met. The changes are listed below for information. The Head of Audit & Risk continuously reviews resource requirements to enable this; however, any changes will be contained within the services budgetary constraints. Some additional resource has been commissioned for the in-house team in quarter four to assist with timely delivery of the 2021/22 audit plan and to ensure a robust Head of Internal Opinion can be provided. Any audits requested that cannot be met by the current year's resources can be commissioned by the service and will be considered as part of audit planning for 2022/23.

12.2 **Table 1 - Changes to Audit Plan (since September 2021 update)**

Audit Title	Change	Audit Sponsor	Reason
141 Station Road	Added	Director of Finance	New risk area, linked to commercial property audit added quarter two.
Opportunity Investment Fund	Added	Director of Finance	Assurance required by s151 and Lead Member.

Audit Title	Change	Audit Sponsor	Reason
Earlham School	Deferred	Director of Children's	Delayed due to resource constraints in school.
Tiverton School	Deferred	Director of Children's	Delayed due to resource constraints in school.

12.3 Appendix A outlines the progress with work from the internal audit plan allocated to Mazars to deliver. A summary of each of the final reports is contained below.

12.4 **IT Capability Management**

This audit was given an 'Adequate Assurance' rating with four priority 2 and three priority 3 recommendations being raised. Risk areas noted were:

- There are a large number of IT staff who are contractors;
- Staff are not currently being upskilled to meet the demands of the gaps in resource for specialist IT jobs;
- There are a few key IT positions that could create a single point of failure with staff and key applications;
- Management have not completed a skills analysis and training records are limited to the last few years; and
- There is no current view of the Target Operating Model (TOM).

12.5 **Accounts Receivable**

This audit was given an 'Adequate Assurance' rating with three priority 2 and three priority 3 recommendations raised. Risk areas noted were:

- Suspense accounts are not reconciled on a regular basis, with large balances carried over each year. We noted there is a balance of £35,359.05 dating back to 2016;
- Refunds are not currently processed in a timely manner. From our sample testing we identified an average processing period of 33.7 working days against a target of 21 working days; and
- The Council's Refund Policy does not detail the approach to deceased accounts which is different to general funds.

12.6 **Payroll**

This audit was given a 'Limited Assurance' with two priority 1 and two priority 2 recommendations raised. Risk areas noted were:

- The Payroll HR System is cumbersome and is overly reliant on manual processes which creates additional work for staff;
- Annual leave is recorded and managed outside of the Payroll HR System, which creates the risk that staff may take annual leave above their entitlement; and
- Payroll process documents are not yet fully mapped for all areas, which leads to the risk that tasks are performed incorrectly or inconsistently. Payroll processes require streamlining as they are

inefficient and create an additional workload for the Payroll and HR Teams.

- 12.7 The Deputy Head of Audit & Risk has continued throughout quarter three to support the COVID Business Grant projects. Two investigators supported this project throughout 2020/21 and continue to do so, however focus is now on the post event assurance work required by central government and investigations of fraud and error, which has enabled them to return to also delivering other work within the service's plan/strategy.
- 12.8 Troubled Families returns have been audited and assurances provided to the Department for Levelling Up, Housing and Communities that the information provided by the Troubled Families Team in pursuit of funding is correct.
- 12.9 Significant follow up activity has been completed in quarter three. A risk-based focus is deployed and updates with regards priority one recommendations are communicated to the Statutory Functions Board. Limited Assurance audit reports are followed up and results reported to management. Internal audit will follow up all the agreed priority 1 and priority 2 actions within 2020/21 audit reports as part of the 2021/22 audit plan, and where required, escalate to where there are concerns raised by follow up work to the relevant Director. This work informs the Head of Internal Audit Opinion, and all follow up work is on track to be completed by year end and an analysis will be included in the Annual Report.

12.10 **Follow Ups**

There have been three follow up audits relating to 'Limited Assurance' reports completed:

Adult's Brokerage - At the time of the follow up review, there were a total of six recommendations that were due for implementation, five priority 2 and one priority 3. Of these six recommendations, based on our testing, five recommendations were implemented (or no longer applicable) and one, priority 2, not implemented. However, action was noted relating to this last recommendation.

Children's Brokerage - At the time of our follow up all the three recommendations raised, one Priority 1 and two Priority 2 recommendations, had passed their agreed implementation dates. However, it is noted that long term sickness of the manager of the team had impacted on ability to complete all actions.

Of these three recommendations, two recommendations were partly implemented as action has been taken by management, but the risks are not yet fully mitigated and one to be in progress as it is part of a wider review/plan which is not yet concluded. Further follow up work will be completed in April 2022.

Declarations of Interest - At the time of our follow up all six recommendations raised, one priority 1, two priority two and three priority 3 recommendations, had passed their agreed implementation dates. Of these six recommendations, we

consider one to be implemented, two to be partly implemented, two recommendations not implemented. One remaining recommendation is no longer applicable.

13. RISK MANAGEMENT

- 13.1 In quarter three risk work has been planned to support the Digital Together Programme, Localities Programme, and the Housing Service. These workshops will be delivered in quarter four with particular emphasis on the risk management around the planned insourcing of Homes for Haringey, as the team also provide services to Homes for Haringey and this activity will help to inform the 2022/23 audit plan.
- 13.2 The Council's approach to Risk Management has been reviewed and an updated strategy will be presented to Members for approval. The focus for 2022/23 will be implementing better technology, using functionality available already within the council, to better support management to embed risk management.

14. ANTI-FRAUD ACTIVITY

- 14.1 The team undertakes a wide range of anti-fraud activity and have two performance indicators to monitor its work relating to tenancy fraud and the other right to buy fraud. These targets have been consistently achieved in recent years. Financial values are 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 2 - Local Performance measures – anti fraud activity

Performance Indicator	Q3	YTD	Financial Value	Annual Measure
Properties Recovered	8	20	360k	50
Right to Buys prevented	13	39	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. There are plans to do cross team proactive tenancy fraud campaigns and use data matching in coming months. It is hoped that this will ensure our annual targets are achieved and try to shift the Council's work on tenancy fraud to a more proactive and preventive approach.

14.5 The Fraud Team will continue to work with the newly restructured HfH team 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.

14.6 Table 3 - Tenancy Fraud Activity and Outcomes

Opening Caseload	230	
New Referrals received	53	
Total		283
Properties Recovered	8	
Case Closed – no fraud	63	
Total		(-) 71
Ongoing Investigations		212

14.7 Two Tenancy Fraud files are being prepared for prosecution and 114 of these cases (54%) are with other teams (Legal or Tenancy Management HfH) 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 31st December 2021 there were 300 ongoing applications with 90 under investigation. During quarter three, 13 RTB applications were withdrawn or refused either following review by the fraud team and/or due to failing to complete money laundering processes. 44 new applications were received in this period for review, delays in the valuation stage of the process have been noted and escalated to the Assistant Director for resolution.

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

The fraud team have attended several gas safety visits in quarter three, where risk of fraud is identified. 30 of the teams on-going investigations were generated by this activity.

14.11 **Pro-active counter-fraud projects**

In quarter three, two members of the team have continued to support the Business Grants administration project, undertaking where required on a risk basis pre-payment checks to ensure the risk of fraud and error is minimised. As noted earlier in this report the team are also completing post event audit and assurance work to identify fraud and error for appropriate action.

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

In quarter three, fourteen referrals have been received and responded to by the Fraud Team. 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.

14.13 **Internal employee investigations**

In accordance with the Council's Constitution, the in-house Fraud Team investigates all allegations of financial irregularity against employees.

At the start of quarter three we had one investigation, which was concluded in the quarter and following a management investigation there was no case to answer.

Two new employee related referrals were received in quarter three, these are ongoing investigations.

The Audit and Risk service work closely with officers from HR and the service area involved to ensure that the appropriate investigation, following a referral, is completed as quickly as possible.

14.14 **Whistleblowing Referrals**

The Head of Audit and Risk Management maintains the central record of referrals made using the Council's Whistleblowing Policy. The one whistleblower case on-going at the end of quarter one has been concluded and is with management for action. Three new referrals were made during quarter three and all are under investigation.

14.15 **Prosecutions**

As at 30 September two suspected tenancy fraud investigations had been advanced for prosecution. One case is scheduled for trial shortly.