

Annual Report on Internal Audit Activity 2016/17

1. Role of Internal Audit

- 1.1 The requirement for an internal audit function is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must: *'Undertake and 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.'*
- 1.2 The mandatory 2013 UK Public Sector Internal Audit Standards (PSIAS) are the 'auditing standards' which the Accounts and Audit Regulations refer to and which the Council must comply with. Under these standards, internal audit are required to have an external quality assessment at least once every five years. Haringey's audit was externally assessed in 2014 which confirmed that the Council complied with the required standards; annual self assessments undertaken since this have ensured continuing compliance with PSIAS.
- 1.3 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The 2015 Accounts and Audit Regulations require the Council to review, at least annually, the effectiveness of its system of internal control. Internal audit plays an important role in advising the Council that these arrangements are in place and operating effectively. The Council's response to internal audit activity and recommendations should strengthen the control environment and ultimately contribute to achieving the organisation's objectives.
- 1.4 Internal Audit services for Haringey Council, excluding the investigation of allegations of fraud and corruption, are provided by Mazars Public Sector Internal Audit Ltd (Mazars) as part of the framework contract awarded to the London Borough of Croydon and extended to 31 March 2018, in accordance with EU regulations.

2. Internal Audit Approach

- 2.1 To assist the Council in meeting the relevant audit standards and achieving its objectives, internal audit provide a combination of assurance and advisory activities. Assurance work involves assessing how well the systems and processes are designed and working; advisory activities are available to help improve systems and processes where required.
- 2.2 A full range of internal audit services has been provided in forming the annual opinion. The approach to each audit review is determined by the Head of Audit and Risk Management, in discussion with Mazars and service management and will depend on: the level of assurance required; the significance of the area under review; and risks identified.
- 2.3 A report is issued for every assurance project in the annual audit plan which provides an overall audit opinion according to the seriousness of the findings. In addition, each recommendation is given a priority rating, to assist service management in prioritising their work to address agreed recommendations. The overall classification relates to the findings at the time of the audit work. Internal

Audit undertake formal follow up work to ensure recommendations are implemented.

3. Internal Audit Opinion

3.1 The Head of Audit and Risk Management is responsible for delivering an annual audit opinion and report that can be used by the Council to help inform its statutory Annual Governance Statement. The annual audit opinion should provide a conclusion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

3.2 Internal audit work, using a risk based approach, included reviews of those systems, projects, and establishments to discharge the Chief Financial Officer's responsibilities under s151 of the Local Government Act 1972; the 2013 UK Public Sector Internal Audit Standards; and the 2015 Accounts and Audit (England) Regulations.

3.3 In providing the annual audit opinion reasonable, but not absolute, assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance given, I have taken account of:

- Reports on all internal audit work completed, including any advisory work and briefings to management;
- Results of follow up exercises undertaken;
- Any reviews completed by external review bodies;
- The resources available to deliver the internal audit plan; and
- The compliance with 2013 UK PSIAS.

3.4 Audit Opinion 2016/17

3.4.1 I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Council's internal control environment.

3.4.2 I have considered the work completed by both Mazars and the in-house counter-fraud investigation team for 2016/17. This includes reviews of internal audit reports, fraud investigations and briefings to management. In my opinion, with the exception of those areas where 'limited' or 'nil' assurance reports have been issued, the controls in place in those areas reviewed are adequate and effective.

3.4.3 Where weaknesses in controls have been identified, internal audit has worked with management to agree appropriate actions and timescales for implementation. Internal Audit will undertake follow up reviews or further audit work to confirm their implementation.

3.4.4 In my opinion, the Council's framework of governance, risk management and management control is adequate and audit work has found controls to be generally effective. Issues arising from internal audit's work which have significant implications for the Council's control and assurance framework have been included in the Annual Governance Statement, which is reported separately to the Corporate Committee.

3.4.5 The significant issue where improvements in compliance with controls were needed related to schools' audits. In 2016/17, the outcomes from the 25 schools audited represented a significant deterioration compared with previous years' results. Further work is being undertaken in conjunction with the Schools Forum and Children's Services to assist schools and reduce the potential risk on the Council. A summary of outcomes for 2016/17 is as follows:

- Nine schools received a 'substantial' assurance rating;
- Thirteen schools received a 'limited' assurance rating; and
- Three schools received a 'nil' assurance rating.

4. Internal Audit Coverage and Output

4.1 The 2016/17 audit plan was informed by internal audit's own assessment of the Council's key risk areas and discussions with Priority Owners and senior management to ensure that audit resources were aligned to agreed areas of risk. A level of contingency was included in the audit plan to ensure that any emerging risks during the year could be adequately reviewed. Work has been planned and performed in order to obtain reasonable assurance that the internal control system is operating effectively.

4.2 The original plan for 2016/17 included a total of 68 projects, including schools audits, and was approved by the Corporate Committee on 28 June 2016. Internal audit liaise closely with Priority Owners and senior managers during the year to ensure that audits planned continue to focus on high risk areas in light of emerging risks and changes to operational processes.

4.3 As a result of ongoing liaison and review of risks, some changes were made to the original plan during the year as follows:

Number of projects as per the original plan	68
Audits added to the plan	4
Cancelled audits	2
Audits covered by other reviews	2
Audits deferred to 2017/18	4
Total number as per the revised plan	64

4.4 Most of the audit work was geared towards providing assurance to management on the adequacy and effectiveness of the Council's internal control environment. This work provided an outcome report with an assurance rating. Other work provided advice and support to management to improve efficiency, or the effectiveness of systems, services or functions; in these cases an outcome report or assurance rating is not provided.

4.5 Resources to complete follow up work are also included in the annual audit plan, including formal follow up reports for schools. The results of the follow up reviews were reported to the Corporate Committee throughout 2016/17.

4.6 The 2016/17 internal audit plan was substantially completed by 31 March 2017 with the following exceptions:

- Work was substantially complete and a draft report issued for five reviews, however final reports were not issued by 31 March 2017;
 - Fieldwork was in progress for 1 review at 31 March 2017.
- I do not consider these exceptions to have an adverse impact on providing my overall opinion for 2016/17.

4.7 Including follow up work and resources to support work which did not result in a formal report, Mazars delivered 95.3% of the planned audit work; this meets the agreed performance indicator of a 95% completion rate.

4.8 The following table indicates the audits completed and levels of assurance provided for the 2016/17 audit plan. Five audits reports were still to be issued as final at 31 March 2017.

Table 1 – Number of reports issued by assurance level

Assurance Level	Number of Reports Issued
Full Assurance	0
Substantial Assurance	24
Limited Assurance	18
No Assurance	3
Advisory work completed	13
Final reports to be issued	6
Total	64

Assurance Definition:

Full Assurance: There is a sound system of control designed to achieve the system objectives.

Substantial Assurance: There is basically a sound system, but there are weaknesses which put some of the system objectives at risk.

Limited Assurance: Weaknesses in the system of controls are such as to put the system objectives at risk.

No Assurance: Control is generally weak leaving the system open to significant error or abuse.

4.9 Key financial systems. In 2016/17, it was agreed with the Chief Operating Officer and system managers, that audits of the key financial systems at the year end did not provide the ongoing assurance throughout the year that they considered more appropriate. Previous years' audits had not highlighted any significant control weaknesses in the key financial systems and no high priority recommendations remained outstanding. Internal audit agreed to work with senior managers to develop a continuous audit approach during 2016/17 which would provide feedback on the management of key risks and controls on a more regular, quarterly basis. The key risks and test programmes have now been agreed and initial findings have been reported to managers; no significant control issues were raised. Internal audit will develop a reporting process for managers and the Corporate Committee in 2017/18 as the continuous audit process is developed and expanded.

4.10 The level of audit coverage provided in 2016/17 is satisfactory and complies with the requirements of the mandatory 2013 UK Public Sector Internal Audit Standards (PSIAS).

Internal Audit Plan 2016/17 – summary of audit recommendations and assurance ratings

Ref.	Audit area	Assurance Level	P1 Recs.	P2 Recs.	P3 Recs.	Status
	Corporate Risk Audits					
1	Shared service centre – case management processes	Substantial	0	5	0	Final
2	Freedom of Information Act requests	Substantial	0	5	1	Final
3	Implementation of 'My Conversation' process	Limited	1	5	2	Final
	Corporate Plan					
	Priority 1 – Outstanding for all					
4	SEN Transport Services	Substantial	0	1	0	Final
5	'Missing' children processes	Substantial	0	3	1	Final
6	Re-referrals, recording and reporting	Substantial	0	2	0	Final
7	Traded Services to Schools	Substantial	0	3	3	Final
8	Special Guardianship Orders**	Limited	4	6	0	Final
	Priority 2 – Outstanding for all					
9	Safeguarding (Deprivation of Liberty) processes	Limited	1	0	1	Final
10	Learning Disabilities, Physical Disabilities, Mental Health – transition processes	Limited	0	9	0	Final
11	Supply Chain Resilience	TBC (Draft)				Draft
12	Case Reviews**	Substantial	1	0	1	Final
	Priority 3 – Clean and Safe					
13	CCTV (mobile and static) use and operation	TBC (Draft)				Draft
14	Parking Services – on street income and enforcement	Substantial	0	1	2	Final
	Priority 4 – Sustainable Housing Growth and Employment					
15	Haringey Development Vehicle	N/A				Advisory
	Corporate IT Audits					
16	Cyber security/incident response	Fieldwork				Fieldwork
17	Active Directory User Security	Substantial	0	3	8	Final
18	'My Account' Customer Portal	Substantial	0	2	4	Final
19	OHMS – application	Substantial	1	2	3	Final
20	Xpress – electoral registration application	Substantial	0	0	2	Final
21	CACI ChildView – application	Substantial	1	3	1	Final
	Contract and Procurement Audit					
22	Residential Care – adult and children's services	TBC (Draft)				Draft

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23	Facilities Management	Substantial	1	1	0	Final
Ref.	Audit area	Assurance Level	P1 Recs.	P2 Recs.	P3 Recs.	Status
24	Highways Repairs Contract	Substantial	0	4	0	Final
25	Sexual Health and Substance Misuse Contracts	TBC (Draft)				Draft
26	Use of waivers	Limited	0	6	3	Final
27	Dynamic Purchasing System**	TBC (Draft)				Draft
	Key Financial Systems (KFS) and Corporate Finance					
28	Strategic Financial Management & Budgetary Control	N/A				Continuous
29	Cash Receipting	N/A				Continuous
30	Treasury Management	N/A				Continuous
31	Accounting & General Ledger	N/A				Continuous
32	Accounts Payable (Creditors)	N/A				Continuous
33	Pension Fund Investment	N/A				Continuous
34	Accounts Receivable (Sundry Debtors)	N/A				Continuous
35	Housing Benefits	N/A				Continuous
36	Council Tax	N/A				Continuous
37	NNDR	N/A				Continuous
38	Payroll	N/A				Continuous
39	Teachers' Pensions contributions	Grant certification				Final
	School Audits					
	Primary Schools					
40	Ferry Lane	Nil	5	14	0	Final
41	Lordship Lane	Limited	0	8	1	Final
42	North Harringay	Substantial	0	5	2	Final
43	Our Lady of Muswell Hill	Substantial	0	7	0	Final
44	Seven Sisters	Limited	2	12	2	Final
45	St Aidan's CE	Limited	0	7	3	Final
46	St John Vianney RC	Limited	0	10	6	Final
47	St Michael's CE (N6)	Limited	2	6	6	Final
48	Stamford Hill	Nil	9	18	2	Final
49	Stroud Green	Nil	12	13	1	Final
50	Tetherdown	Substantial	0	6	1	Final
51	West Green	Substantial	0	6	1	Final
52	Weston Park	Limited	0	12	1	Final
	Junior Schools					
53	Belmont Junior	Substantial	0	6	3	Final
54	Rokesly Junior	Limited	0	4	8	Final
	Nursery Schools					
55	Pembury	Limited	0	12	2	Final
56	Woodlands Park Nursery School and Children's Centre	Substantial	0	5	1	Final
	Secondary Schools					

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57	Fortismere	Substantial	0	1	3	Final
Ref.	Audit area	Assurance Level	P1 Recs.	P2 Recs.	P3 Recs.	Status
58	Highgate Wood	Limited	1	13	2	Final
59	Northumberland Park	Substantial	0	6	3	Final
	Special/Other Schools					
60	Riverside	Substantial	0	6	2	Final
61	The Vale	Limited	1	8	1	Final
62	The Brook on Broadwater	Limited	1	6	3	Final
63	Blanche Neville	Limited	0	10	1	Final
64	Tuition Service**	Limited	5	9	2	Final

**Four reviews added to the 2016/17 plan at the request of Priority Owners

2016/17 Audits deferred and cancelled

Audit area	Reason audit not undertaken
Recruitment and selection processes (temporary and permanent appointments)	Deferred to 2017/18 to allow new processes and systems to be embedded. To be completed in Q3.
Implementation of Welfare Reform and assistance processes (including DHP)	Deferred to 2017/18 to allow new processes and systems to be embedded across all services. To be completed in Q2.
Security of data, performance monitoring and management.	Replaced by Information Governance audit. To be completed in 2017/18 Q2.
Early Help assessment processes	Deferred to 2017/18 to allow new processes and systems to be embedded. To be completed in Q2.
Carbon reduction – performance measurement and reporting	Audit cancelled. Government scheme originally due to conclude in 2017, now extended to 2019.
HCL/Sunguard incident management	Audit scope included in OneSAP audit in 2015/16 plan. Report issued in Q1 2016/17.
ICT contract delivery (tri-borough)	Deferred to 2017/18 to allow new processes and systems to be embedded. Completion date to be agreed with Camden and Islington.

Counter-fraud work 2016/17

1. Introduction

1.1 Haringey Council is committed to ensuring the highest possible standards are maintained by its staff, contractors and residents. Fraud and corruption can impact on the public's confidence in the Council and its reputation in the long term. Counter-fraud policies and strategies are in place to detect and prevent fraud and a corporate Fraud Team is managed by the Head of Audit and Risk Management.

2. Transparency Code 2015

2.1 In accordance with Part 2 of the Local Government Transparency Code 2015, Haringey is required to publish information on the cost of its counter-fraud work and the outcomes achieved. Details of the required information and the Fraud Team's involvement in counter-fraud work during 2016/17 is summarised below:

Table 2 Transparency Code reporting – costs and fraud cases 2016/17

Transparency Code requirement	2016/17
Allocated budget for counter-fraud work	£817k
Number of staff (absolute and FTE) undertaking counter-fraud work	9 staff: 8.5FTE
Number of staff of professionally accredited counter-fraud specialists	9 staff
Total amount of time spent on the investigation and prosecution of fraud	1,785 days
Total number of fraud cases investigated	751
Number of occasions powers under the Prevention of Social Housing Fraud Regulations have been used	48

2.2 The Transparency Code also requires a breakdown of the 751 fraud cases (identified in Table 2) investigated during 2016/17. This detail is summarised in Table 3 below:

Table 3 Transparency Code reporting – investigations completed by type

Investigation area	Number of investigations
Right to Buy applications	210
Tenancy fraud	171
Pro-active tenancy checks	184
Gas Safety tenancy checks	108
Employee fraud cases	16
No Recourse to Public Funds	62
Total	751

3. Internal Employee Investigations

- 3.1** During 2016/17, 16 investigations were completed involving council employees. The allegations covered a number of issues including theft, misuse of position, misuse of council resources and bribery offences; the number of investigations completed by service area is shown below. The number of investigations in total is consistent with previous years' work.
- 3.2** In eleven cases, the investigation found evidence to support the allegations and reports were issued which identified the relevant breach of the Council's Code of Conduct and recommended disciplinary action be taken in accordance with Council procedures. In two cases, service management completed the disciplinary processes and in nine cases the Fraud Team were required to support the disciplinary process. All nine cases were proven, with six employees resigning prior to the disciplinary hearing; two cases were heard and final written warnings issued; and one case was heard and the employee was dismissed – their subsequent appeal was not upheld and the dismissal confirmed.
- 3.3** 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. The Fraud Team have a target to complete investigations within eight weeks of the referral; this was achieved during 2016/17.

Table 4 – Employee Investigations by service area

Service area	Investigations 2016/17
Deputy Chief Executive	3
Chief Operating Officer	12
Corporate Governance	1
Total	16

4. Use of the Council's Whistleblowing policy 2016/17

- 4.1** The Head of Audit and Risk Management maintains the central record of referrals made using the Council's whistleblowing policy. In total, 16 whistleblowing referrals were made during 2016/17, 9 of which were anonymous.
- 4.2** All referrals made using the whistleblowing policy are reviewed and subsequent investigations are managed according to all relevant statutory requirements, including Data Protection, Regulation of Investigatory Powers and Police and Criminal Evidence Acts. In some cases, the limited amount of information provided means a full investigation cannot be undertaken. The Head of Audit and Risk Management undertakes an initial review of the information before agreeing an approach with HR and service management. Any allegations relating to financial issues are investigated by the Fraud Team.
- 4.3** In 2016/17, two cases were referred to service management to be dealt with as they did not relate to financial issues; two cases related to previous whistleblowing referrals made in 2015/16 which had been closed due to lack of evidence, no further information was provided and the cases were closed; ten

cases were investigated by the Fraud Team, eight cases were closed either due to lack of information or evidence and two cases were subject to further action; two cases remained ongoing at the year end.

4.4 Regular reminders regarding expected standards of behaviour and how to report suspected fraud are provided via staff newsletters, the Council’s intranet and website and via Haringey People and Home Zone publications.

5. Pro-active and Reactive Counter Fraud Activity 2016/17

5.1 During 2016/17, the Fraud Team have undertaken a number of pro-active and reactive counter-fraud projects in areas which have been identified as a high fraud risk. Progress reports on this work have been reported to the Corporate Committee during the year; the findings and outcomes are all shared with service managers as the projects are delivered. Details of the key counter-fraud projects are detailed below.

5.2 Tenancy Fraud

5.2.1 In 2016/17, the Fraud Team continued to work with Homes for Haringey to prevent and detect tenancy fraud. Numbers of referrals received, investigations completed and properties recovered to date by the Fraud Team are summarised below.

Table 5 – tenancy fraud referrals, investigations and properties recovered

<u>2016/17 – Referrals received</u>		
Brought forward from 2015/16		88
Referrals received in 2016/17		17
Total referrals received for investigation		264
 <u>2016/17 Outcomes</u>		
Properties Recovered	48	
No Fraud identified	123	
Total cases concluded		171
Ongoing Investigations		93*

*See Note 1 below

Note 1: Of the 93 ongoing investigations; 30 of these cases (32%) are where tenancy fraud has been identified and court proceedings were in progress as at 31 March 2017. The property will be included in the ‘recovered’ data when the keys are returned and the property vacated.

5.3 Other tenancy fraud investigations.

5.3.1 In 2016/17 the Fraud Team investigations have recovered three Temporary Accommodation (TA) properties which were not being used by the assigned tenant; and have prevented three fraudulent housing applications from being accepted by working with Homes for Haringey teams.

5.4 Gas safety – execution of warrant visits

5.4.1 Since July 2016, members of the Fraud Team accompany warrant officers on all executions of warrant of entry visits where it was suspected that the named tenant was not in occupation.

5.4.2 The Fraud Team will interview any occupant at the property in order to establish the legitimacy of the tenancy; or investigate further if the property is empty or identified as being potentially sublet or abandoned. The Fraud Team may also identify cases where the tenant is a vulnerable adult, in which case a referral is made to social workers and/or tenancy management. The Gas Safety Team can also make referrals to the Fraud Team if they identify any potential fraud indicators through the normal course of their work.

5.4.3 Since July 2016, ten properties have been recovered through this project. These properties are included in Table 5 above within the total of 48 Council properties recovered in 2016/17. In addition, there have been eighteen cases of concern referred to social workers and tenancy management officers for a review of the vulnerability of a tenant.

5.5 Tenancy Block Visits

5.5.1 The Fraud Team undertook a pro-active tenancy fraud project focused on individual tenancy blocks to identify any properties that may be sub-let. The Fraud Team obtained a report on key housing stock sites which used data matching to identify potential sub-let properties and identified Stellar House and Northolt for further investigation.

5.5.2 In July 2016, the Fraud Team carried out visits to all 93 tenanted addresses in Stellar House. The Fraud Team identified six tenancies where access was not given, or obtained. All six tenants have been served with an NTQ by HfH's tenancy management team; one property is being recovered and a further two have been passed to the Council's Legal Services for recovery proceedings to commence.

5.5.3 In February 2017, the Fraud Team carried out visits to 91 tenanted addresses in Northolt. Further follow up visits were undertaken and the Fraud Team identified six tenancies where access was not given, or obtained. All six tenants in Northolt have been served with an NTQ by HfH's tenancy management team and the Fraud Team will monitor the cases through any legal proceedings.

5.6 No Recourse to Public Funds (NRPF)

5.6.1 The Fraud Team attend the initial assessment interview with the applicant to review all information provided to support their application for NRPF funding. This is to prevent any NRPF claimant who is not eligible from obtaining funds fraudulently. In 2016/17, the Fraud Team attended the initial interview for 62 new applications and investigated four referrals from social workers where support had previously been approved.

5.6.2 As a result, ten applications have either been refused support from the outset, or accommodation/subsistence support withdrawn in ten cases. There is also one instance of a Judicial Review (JR) being withdrawn. The average cost of

NRPF support per family based on accommodation and subsistence for a two child household is estimated to cost the Council approximately £20,000 a year. The Fraud Team will continue to work with the NRPF Team in 2017/18 to develop processes to identify and prevent fraud.

5.7 Right-to-buy (RTB) fraud.

5.7.1 Although the number of applicants under the Right to Buy scheme reduced overall in 2016/17, the Fraud Team still had over 300 ongoing applications under investigation. The team reviews every RTB application to ensure that any property where potential benefit or succession fraud is indicated can be investigated further.

5.7.2 In 2016/17, 100 applications have been withdrawn or refused either following the applicants' interview with the Fraud Team, further investigations and/or failing to complete money laundering processes.

6. Counter-fraud – value of outcomes achieved in 2016/17

6.1 In 2016/17, the target for counter-fraud work was to contribute a minimum of £10m worth of savings, or avoided expenditure, to assist the Council in improving its frontline services. The total cost of the counter-fraud team in 2016/17 was £817k.

6.2 The Cabinet Office (previously the Audit Commission) valued the recovery of a tenancy, which has previously been fraudulently occupied, at an annual value of £18,000, relating to average Temporary Accommodation (TA) costs. No new national performance indicators for tenancy fraud have been produced; therefore the £18,000 figure is still used, although this is considered low if the tenancy has been illegally sublet for several years.

Table 6 – value of outcomes achieved as a result of counter-fraud work

Counter-fraud Activity	Number	Unit value £000s	Total £000s
Council Tenancies recovered	48	18*	864
Right to Buy investigations	100	104**	10,400
Temporary Accommodation recovery	3	18*	54
NRPF	10	20	200
Total			11,518

* Cabinet Office estimated value of average Temporary Accommodation costs per annum

** RTB Actual discount value