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| <b>AUDIT AND RISK MANAGEMENT PANEL</b>  | <b>DATE:</b><br>29 June 2021  |
| <b>REPORT TITLE:</b><br>Internal Audit & Anti-Fraud –<br>Performance Report 2020/21 | <b>ITEM NO</b><br>5   |
| <b>CHIEF OFFICER</b><br>Director of Finance   | <b>CABINET MEMBER</b><br>Finance & Resources  |
| <b>DECISION CLASSIFICATION</b><br>-   | <b>IS THE FINAL<br/>DECISION ON THE<br/>RECOMMENDATION<br/>S IN THIS REPORT<br/>TO BE MADE AT<br/>THIS MEETING</b><br>N/A |

### 1. **Decision required**

This report makes the following recommendations to the decision-maker:

- 1.1 To note Internal Audit and Anti-Fraud performance in relation to the delivery of the Royal Borough’s Internal Audit Plan and the prevention, detection and investigation of fraud, for the year 2020/21.
- 1.2 To note the Head of Internal Audit opinion on the soundness of the control environment in place within the Royal Borough as one part of the overall assurance assessment provided to Members as part of the Annual Governance Statement, which will be reported to the next meeting of the Audit and Risk Management Panel.

### 2. **Links to the Royal Greenwich Strategy**

- 2.1 The Internal Audit function is covered under Section 151 of the Local Government Act 1972. The Act requires local authorities to “...make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.
- 2.2 At the Royal Borough of Greenwich, the Chief Executive is the designated Section 151 Officer and one of the ways responsibilities are discharged, is through the work of Internal Audit. This report details the work undertaken by Internal Audit & Anti-Fraud as part of these statutory requirements.

2.3 Internal Audit is a statutory requirement under the Accounts and Audit (Amendment) (England) Regulations 2015. Regulation 5, paragraph 1 requires:

*‘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’.*

2.4 Section 3 of the Accounts and Audit (Amendment) (England) Regulations 2015 state that the “...authority must ensure that it has a sound system of internal control.” and Section 4 (4) (a) (ii) goes on to say that “the financial control systems...must include measures to enable the prevention and detection of inaccuracies and fraud”.

### 3. **Purpose of Report and Executive Summary**

3.1 This report provides the Panel with details of the performance of Internal Audit and Anti-Fraud in respect of the annual Internal Audit plan for the financial year 2020/21 and the areas of work undertaken, together with Internal Audit and Anti-Fraud’s opinion on the soundness of the control environment in place to minimise risk to the Royal Borough.

3.2 This report also provides the Panel with details of the performance of Internal Audit and Anti-Fraud in respect of the prevention, detection and investigation of fraud and irregularity during the financial year 2020/21.

3.3 Although Internal Audit and Anti-Fraud represent discrete functions albeit integrated into one combined unit to strengthen compliance and control for ease of reference, this report provides details on both areas of responsibility separately, starting firstly with the Internal Audit function.

### 4. **Introduction and Background**

4.1 The Financial Year 2020/21 started during the national lockdown caused by the Covid-19 pandemic. From the start of the lockdown Internal Audit Management decided not to contact service areas within the Royal Borough in order to allow them to direct all their resources to responding to the pandemic. This was an approach widely adopted by Internal Audit Services across London.

- 4.2 Although an Internal Audit Plan had been prepared to take effect from 1st April 2020 it was clear that immediate adjustment was necessary and as a result an interim audit plan was put in force. Internal Audit was unable to revert to a more usual service coverage until 1st August and a revised Audit Plan for 2020/21 was presented to the Panel on 21st September 2020.
- 4.3 Internal Audit & Anti-Fraud were quick to volunteer to assist in the Council's response to the pandemic. During 2020/21 a total of 390 days of internal audit resource was redeployed to assist other services areas, such as Registrars and Debt Recovery.

The table below shows a breakdown:

|                       | Days        |             |             |              | Total      |
|-----------------------|-------------|-------------|-------------|--------------|------------|
|                       | Q1          | Q2          | Q3          | Q4           |            |
| Registrars            | 31.5        | 32.25       | 0.5         | 20           | 84.25      |
| Corporate Debtors     | 47          | 25.25       | 57          | 97.5         | 226.75     |
| NHS Redeployment      | -           | -           | -           | 21           | 21         |
| Test & Trace Payments | -           | -           | -           | 49           | 49         |
| Pre-paid Cards        | 9           | -           | -           | -            | 9          |
| <b>Total Days</b>     | <b>87.5</b> | <b>57.5</b> | <b>57.5</b> | <b>187.5</b> | <b>390</b> |

## 5. Performance (Internal Audit)

- 5.1 Given the response to the pandemic in the initial months, the Panel should note that the productivity figures presented are for the period 1st July 2020 to 31st March 2021, whereas other performance figures relate to the full financial year 1st April 2020 to 31st March 2021.
- 5.2 The following highlights the overall performance against the 2020/21 plan:
- Projects Covered
- 5.3 The revised 2020/21 Internal Audit plan identified a total of 78 separate Royal Borough of Greenwich audit projects to be undertaken during the year. By year end, work was either completed or was in progress on a total of 38 planned audit projects. The remaining 40 audit projects have had to be deferred to the 2021/22 annual audit plan.
- 5.4 No unplanned audit work was undertaken during the course of the year, apart from the support provided by Internal Audit & Anti-Fraud staff to other services within the Borough and the NHS.

- 5.5 Since the last Panel meeting in September 2020 Internal Audit have finalised one audit assignment where only limited assurance could be provided. A summary of the risk and control issues and agreed management action is included in this report as **Appendix A**.

#### Time Performance

- 5.6 Internal Audit aims to deliver improved levels of productivity during the year. Productivity is measured by the level of staff resource devoted directly to audit related activities, i.e. excluding non-direct time such as staff annual leave entitlement, sickness, corporate management and administrative duties, internal/external training courses, etc.
- 5.7 The productivity level target is ordinarily set at 80%. A comparison of the productive staff time achieved from 2018/19 to date years is shown below:

Table I – Actual Productive Time 2018/19 to 2020/21\*

| <b>Internal Audit Time</b> | <b>2018/19</b> | <b>2019/20</b> | <b>2020/21*</b> |
|----------------------------|----------------|----------------|-----------------|
| Productive Time            | 83%            | 85%            | 59%             |
| Non-Direct Time            | 17%            | 15%            | 51%             |

\* The performance figures for 2020/21 are for the period 01 July 2020 to 31 March 2021 only, as per paragraph 5.1 above. Thus, the maximum percentage that could potentially have been achieved represents 75% rather than the standard 100%.

#### Apportionment of Audit Coverage

- 5.8 The table overleaf indicates the actual audit time given to each Royal Borough Directorate (including corporate audit reviews) compared to planned apportionment.

Table 2 - Departmental coverage 2020/21

| Directorate                             | Revised Planned Days | % of Total Days | Actual Days | % of Actual |
|---|----------------------|-----------------|-------------|-------------|
| Health and Adult Services               | 55                   | 7.5%            | 25          | 4.2%        |
| Children's Services (including Schools) | 161                  | 21.8%           | 16          | 2.7%        |
| Communities & Environment               | 170                  | 23.1%           | 112         | 18.7%       |
| Housing & Safer Community               | 90                   | 12.2%           | 152         | 25.3%       |
| Finance                                 | 145                  | 19.7%           | 147         | 24.5%       |
| Regeneration, Skills & Enterprise       | 90                   | 12.2%           | 122         | 20.3%       |
| Greenwich Services Plus                 | 3                    | 0.4%            | 1           | 0.1%        |
| Follow Up                               | 10                   | 1.4%            | 25          | 4.2%        |
| <b>Total</b>                            | <b>737</b>           | <b>100%</b>     | <b>600</b>  | <b>100%</b> |

5.9 A large proportion of available audit resources were concentrated within Finance. This is because the Directorate holds responsibility for many of the Royal Borough's main financial systems and the Royal Borough's Modernisation Programme. Responsibility for Human Resources and for the delivery of the Information Technology was included in the responsibility for the Directorate of Communities & Environment.

5.10 Recommendation Implementation

Since June 2019 performance reports to the Panel have included information relating to the progress of the implementation of internal audit recommendations.

Table 3 – Recommendation Implementation / Tracking

| Recommendation Description  | April 2020– March 2021 |
|---|------------------------|
| Number of <b>High</b> priority IA recommendations where positive management action is proposed                          | 77                     |
| Number of <b>Medium</b> priority IA recommendations where positive management action is proposed                        | 122                    |
| Number of <b>High</b> priority IA recommendations where management action has been taken within the agreed timescales   | 73 of 144              |
| Number of <b>Medium</b> priority IA recommendations where management action has been taken within the agreed timescales | 82 of 128              |

- 5.11 In cases where recommendations remain outstanding additional time has been allowed and further follow up will be undertaken in due course. Should the full implementation not have been achieved at that point, a dedicated follow up report with revised assurance level will be issued to management.

#### General Support

- 5.12 Internal Audit was unable to continue to provide a high level of support to the Royal Borough's schools via a controlled programme of establishment visits. No school audit reviews were undertaken in 2020/21 due to the Covid-19 restrictions. All planned school audit reviews have been deferred to the 2021/22 audit plan.

#### Quality Assurance

- 5.13 The delivery by the Internal Audit and Anti-Fraud function of the performance outlined in this report is dependent upon the quality of the function itself. Effectively, this has been continually assessed and developed in a number of ways throughout the year to enable the Royal Borough's Section 151 officer to not just obtain his own assurance of the adequacy of the function but also to have confidence in the function's ability to continually improve.
- 5.14 Internal Audit continues to adhere to the Public Sector Internal Audit Standards (PSIAS) that came into force on 1st April 2013 and all audit reviews are conducted to these standards.

#### Client feedback

- 5.15 As part of Internal Audit's quality management system, clients are requested to complete a questionnaire providing feedback on the level of the Internal Audit service provided:

- The level of consultation on the scope/objectives before audit work started;
- Whether the audit was conducted professionally;
- Did the audit review meet the objectives set;
- Was the report structured and well presented;
- Did the report provide sufficient detail on control issues;
- Did the report provide practical recommendations for the problem areas identified;
- Overall, did the audit process assist management in improving control systems?

- 5.16 The questionnaire asks clients to score each criterion in line with the following: 5 Excellent; 4 Good; 3 Satisfactory; 2 Unsatisfactory; 1 Poor. For 2020/21, Internal Audit set a performance target of 4 (Good).
- 5.17 The average score received in respect of 2020/21 was 4.6 (Good to Excellent) and demonstrates the continued high regard for the function across the Royal Borough. A breakdown of the individual questionnaire returns, and scores attributed to each area are provided in the following table.

Client Satisfaction Questionnaires (April 2020 to March 2021)

| Audit Review Area                                 | Review Code  | Date Received | Average Score |
|---|--------------|---------------|---------------|
| Accounts Payable (Creditors) 2019/20              | 2019/SR/459  | 23/04/20      | 4.6           |
| Housing Benefit/Local Council Tax Support 2019/20 | 2019/SR/465  | 12/05/20      | 4.6           |
| Street Lighting Contract                          | 2019/SR/495  | 18/06/20      | 4.7           |
| Tied Accommodation                                | 2019/SR/473  | 23/07/20      | 4.0           |
| Bus Service Operators Grant – 01/10/19 – 31/03/20 | 2020/SR/517  | 04/08/20      | 5.0           |
| Thomas Tallis Secondary                           | 2019/SPR/307 | 21/09/20      | 5.0           |
| Commercial Rents                                  | 2019/SR/494  | 20/10/20      | 5.0           |
| Accounts Receivable (Sundry Debtors) 2019/20      | 2019/SR/460  | 26/10/20      | 4.0           |
| Payroll 2020-21                                   | 2020/SR/508  | 22/03/21      | 4.6           |
| <b>Average Score</b>                              |              |               | <b>4.6</b>    |

**Head of Internal Audit – Annual Report**

- 5.18 The Annual Governance Statement demonstrates the range of organisational controls, many of which are complementary, which serve to provide an effective level of governance assurance to the Royal Borough. An annual Audit Assessment of the control environment, based on the audit work completed, is one important part of this overall assessment.

- 5.19 The annual Audit Assessment for 2020/21 has, as in previous years, been developed upon a methodology using a matrix which identifies the systems and operations audited. It also categorises each area in terms of the level of importance to the Royal Borough's objectives, and an assessment on the level of control in operation.
- 5.20 Full details of the assessment are shown within the report at **Appendix B**. The key conclusion to the report is that 91% of the systems reviewed were of either a satisfactory or high level of control, therefore demonstrating that the Royal Borough can, as in previous years, continue to have confidence in its financial and management control systems.
- 5.21 The report highlights those areas where controls need to be improved and the Internal Audit function's planned work for 2021/22 has time allocated for each of these areas for undertaking appropriate follow up work. Clearly where systems controls are in need of improvement it is important to pay particular attention to those which are fundamental to the Royal Borough and consequently carry high risks organisationally.
- 5.22 Internal Audit will pay particular attention to those areas where the Internal Audit opinion is one of 'none' or 'limited' assurance.

#### Conclusion

- 5.23 This report provides details of the performance of Internal Audit & Anti-Fraud and seeks to give reassurance that the service is being delivered in accordance with statutory responsibilities and is continually seeking to improve the standards of its service.
- 5.24 The report provides confirmation that Internal Audit & Anti-Fraud provided an adequate level of internal audit coverage of material systems during 2020/21. The Section continued to monitor audit coverage and reprioritised the use of audit resources in accordance with continual risk assessment. Additionally, the report provides the Panel with an assurance the Section is demonstrating continual improvement and delivering a cost-effective service.
- 5.25 Using the cumulative knowledge and experience of the systems and controls in place, the results of previous audit work and the work undertaken within 2020/21, it is considered that throughout the Royal Borough as a whole there continues to be a sound control environment.

## 6. **Performance (Anti-Fraud)**

### Housing Benefit

- 6.1 During 2020/21 Internal Audit received 49 referrals relating to allegations of Housing Benefit / Council Tax Benefit Fraud. Of these referrals 19 related to benefit customers residing in council tenancies. 30 related to customers residing in privately rented accommodation.
- 6.2 Of the 49 referrals received, 29 were referred to the Department for Works and Pensions' Single Fraud Investigation Service for investigation.
- 6.3 Included in this total are 22 referrals received via members of the public, alleging housing benefit fraud. 9 were received by telephone using the confidential fraud hotline, 1 was received by letter and 12 were received via the Royal Borough website or the generic email address [fraud@royalgreenwich.gov.uk](mailto:fraud@royalgreenwich.gov.uk).
- 6.4 Of the 10 telephone calls and letters received by Internal Audit from the public no-one chose to provide their name or address.
- 6.5 The Royal Borough is no longer able to issue sanctions in respect of housing benefit. The DWP have determined that cautions are no longer to be issued in respect of benefit fraud. However, they will consider issuing 'Administrative Penalties' and where appropriate will contact the Advice & Benefits Service to establish whether the Royal Borough wants the amount of housing benefit overpaid included in the calculation of the administrative penalty. Advice & Benefits have received 18 requests for inclusion of housing benefit overpayments totalling £29,089.40 from the DWP during 2020/21.

### Tenancy and Sub-Letting

- 6.6 During 2020/21 Internal Audit received 33 allegations of tenancy and housing related fraud. As a result of Internal Audit investigations into illegal occupation and sub-letting and work with Housing Services and Legal Services colleagues, 6 Council properties and 1 Registered Social Landlord property have been recovered during the year.
- 6.7 It should also be noted 2 individuals were prosecuted in March 2020 in relation to tenancy fraud with one imprisoned for eight months and ordered to pay £19,795 relating to temporary accommodation costs incurred by the Royal Borough.

- 6.8 There remains no official universally recognised financial value on the recovery of a Council tenancy.
- 6.9 However, in the National Fraud Initiative Report 2016 produced by the Cabinet Office (who now have responsibility for the National Fraud Initiative), the estimated outcome in respect of tenancy fraud cases was detailed as £93,000.
- 6.10 The basis of this revised calculation is provided as follows:
- ‘£93,000 per property recovered based on average four year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies’.*
- 6.11 Using the Cabinet Office revised estimate of £93,000, the work of Internal Audit, Housing Services and Legal Services in 2020/21 has successfully secured the recovery of council tenancies with a combined total value of £558k in respect of the 6 recovered properties.
- 6.12 During 2020/21 a number of restraint orders were authorised by the Crown Court with a total value of £504k. The restraint orders are all related to ongoing investigations.

#### Temporary Accommodation Costs

- 6.13 Internal Audit continues to seek to recover financial losses in its criminal & civil tenancy investigations. Losses are calculated in respect of the cost to the Royal Borough of having to provide emergency / temporary accommodation as required to others in genuine need of housing due to having been deprived the use of its own properties as a result of sublet / falsely obtained tenancies.
- 6.14 Internal Audit believes this is an innovative approach and will continue to work with colleagues in Housing and Legal Services to pursue cases in this manner where there are assets available to secure the recovery of financial losses.
- 6.15 During 2020/21 Internal Audit has reached agreements (either via the Court or by civil agreement) to secure the repayment of financial losses relating to emergency / temporary accommodation totalling £24,795. Instalments are ongoing in respect of previous cases and a total of £57,435 has been collected by the Royal Borough during the year.

6.16 Over the last 6 years financial losses relating to temporary / emergency accommodation costs have been settled at £582,096 with £477,475 having so far been repaid to the Royal Borough.

Unauthorised Occupation Team (Directorate of Housing Services)

6.17 In 2020/21 the work of the Unauthorised Occupation Team has resulted in Housing Services recovering 4 properties. These are in addition to the 6 tenancies recovered by way of Internal Audit investigations. A total of 10 recovered council tenancies represents a combined value of £930k using Cabinet Office values.

Corporate Related Fraud

6.18 Internal Audit has conducted investigations into 54 corporate related matters, i.e. non benefit, non tenancy fraud. These investigations covered areas detailed in the table below:

| <b>Allegation Type</b>   | <b>Total</b> | <b>Directorate</b>   |
|--------------------------|--------------|--|
| Covid-19 Business Grants | <b>29</b>    | Finance  |
| Council Tax Exemptions   | <b>9</b>     | Finance  |
| Direct Payment Fraud     | <b>5</b>     | Health & Adult Services  |
| Corruption               | <b>4</b>     | Finance / Housing & Community Safety / Communities & Environment / Health & Adult Services |
| Blue Badge Misuse        | <b>2</b>     | Regeneration, Enterprise & Skills  |
| Theft                    | <b>2</b>     | Health & Adult Services / Communities & Environment  |
| Payee Fraud              | <b>2</b>     | Finance  |
| Secondary Employment     | <b>1</b>     | Health & Adult Services  |
|                          | <b>54</b>    |  |

6.19 Of the total of 54 investigations, 4 involved allegations implicating a Royal Borough or Agency employee. There were two investigations that related to theft, both employees have been dismissed and there are prosecutions pending in respect of each individual. Allegations involving two other employees were referred to management for their investigation.

Business Rates

6.20 Throughout the year, Internal Audit has provided support to colleagues in Finance (Revenues) and Regeneration Enterprise and Skills by supporting the

due diligence and pre-payment checks undertaken in respect of those businesses and individuals applying for Covid-19 business support grants.

- 6.21 The initial schemes related to the Small Business Grant Fund and the Retail, Hospitality & Leisure Grant Fund with payments of either £10,000 or £25,000 depending on the size and nature of the business.
- 6.22 During the period 2020/21 a total of 24 investigations were raised by Internal Audit & Anti-Fraud, of which 34 related to the Small Business Grant Fund and 2 related to the Retail, Hospitality & Leisure Grant Fund.
- 6.23 In one case, in April 2020 the Royal Borough received an application for a Retail, Hospitality & Leisure Grant of £25,000 on behalf of a leisure business from Ms X. The online application was completed correctly and the business name corresponded with the details held on the Business Rates system hence a payment of £25,000 was made to the designated bank account on 9 April 2020.
- 6.24 It was subsequently established in May 2020 that the business had entered liquidation prior to the grant qualifying date of 11 March 2020.
- 6.25 Contact with the insolvency company dealing with the liquidation of the business confirmed that the Companies House data was accurate however they had no knowledge of Ms X in any of their dealings with the leisure business.
- 6.26 Using powers under the Proceeds of Crime Act 2002 the Financial Investigator within Internal Audit & Anti-Fraud contacted the bank into which the £25,000 had been paid and it was identified the money was still held in the account.
- 6.27 A Restraint Order was obtained from Woolwich Crown Court and the monies in the bank account were frozen.
- 6.28 Anti-Fraud officers interviewed Ms X under caution and she provided confirmation she had leased the premises and that she had been in dispute with the Landlord for many months and that he had locked her out of the premises.
- 6.29 Ms X stated the Landlord owed her money and she did not want him claiming the £25,000 grant hence she claimed it and retained it in her account.

6.30 Woolwich Crown Court agreed to remove the Restraint Order on the bank account on the proviso that Ms X transferred the sum of £25,000 into the Royal Borough's bank account.

#### 6.31 Direct Payments

During 2020/21 Internal Audit has undertaken several investigations into Direct Payments completing three that has led to the reassessment of care and the calculation of overpayments totalling £16,179. The allegations of fraud in this area are often complex and require sensitive investigation.

#### Blue Badge Fraud

6.32 During the period Internal Audit has investigated the misuse of 3 Blue Badges. One resulted in a successful prosecution with the individual receiving a 8 week driving ban and a fine of £158 and costs awarded to the Royal Borough of £2,645, one investigation is ongoing, the remaining individual received a formal warning and a reminder of the conditions of usage of the Blue Badge and advised they would be prosecuted should they be found to be misusing a Blue Badge again.

### 7. **Anti Fraud Management**

#### Performance Monitoring

7.1 In addition to reporting to the ARM Panel Internal Audit has continued to provide regular monitoring reports to both Community Services (Housing) Management in the Royal Borough and the Client Monitoring Officer (Head of Internal Audit) in Bromley outlining throughput and results.

#### Partnership with the London Borough of Bromley

7.2 Internal Audit has continued to work in partnership with the neighbouring borough of Bromley for the provision of a fraud investigation service. A service specification is in place that is monitored monthly and reviewed on a regular basis. Bromley provide the Royal Borough with secure remote access to Bromley computer systems and databases.

### 8. **Cross Cutting Issues and Implications**

| <b>Issue</b>                            | <b>Implications</b>   | <b>Sign-off</b>   |
|---|---|---|
| <b>Legal</b> including Human Rights Act | The Internal Audit function is covered under Section 151 of the Local Government Act 1972. The report raises no legal issues. | Azuka Onuorah<br>Head of Legal Services<br>14th June 2021 |

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|---|--|--|
| <b>Finance</b> and other resources including procurement implications | This report has been prepared by the Director of Finance and has no other financial implications.  | Michael Bate<br>Assistant Director of Corporate Finance<br>14th June 2021                          |
| <b>Equalities</b>   | The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no apparent equality impact on end users. | Brendan Costello<br>Assistant Director of Finance (Financial Governance & Audit)<br>11th June 2021 |

## Appendices

- Appendix A Internal Audit Review - Summary  
Leaseholder Service Charges – (Planned & Major Repairs)
- Appendix B Head of Internal Audit Report 2020/21  
(including Attachment 1 & 2)

## Background Papers

None

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