

Report of:	Head of Internal Audit, Veritau
Submitted to:	Corporate Affairs and Audit Committee, 4 March 2021
Subject:	Internal Audit and Counter Fraud progress report

Summary

Proposed decision(s)
<p>That the Committee:</p> <ul style="list-style-type: none"> notes the progress in delivering the 2020/21 internal audit and counter fraud plan and the outcomes from work completed since the last report to this committee.

Report for:	Key decision:	Confidential:
Information	No	No

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
Receiving details of internal audit and counter fraud work completed will help the Committee perform its role. Internal audit and counter fraud work contributes towards achieving the Council’s priorities by identifying potential issues which may obstruct that achievement.	Internal Audit assists management in delivering their priorities by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls, ensure value for money and achieve better outcomes for local people.	Delivering balanced budgets, maintaining front line services, and addressing budget shortfalls are priorities for the Council. Ensuring appropriate controls are in place and preventing fraud from occurring and recovering loss helps the Council achieve these aims.

Ward(s) affected
None.

What is the purpose of this report?

1. To provide Members with an update on progress with the delivery of internal audit and counter fraud work and on reports issued and other work completed since the last update report to this committee.

Why does this report require a Member decision?

2. Internal audit professional standards require that internal audit reports to the committee on progress with the delivery of audit plans and on the findings and conclusions from work completed.

Report Background

3. Internal audit provide independent and objective assurance and advice on the Council's operations. It helps the organisation to achieve overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
4. The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
5. Fraud is a significant risk to the public sector. Annual losses are estimated to exceed £40 billion in the United Kingdom. Veritau are engaged to deliver a counter fraud service for Middlesbrough Council. The service helps the council to mitigate fraud risks and to take appropriate action where fraud is suspected.
6. The purpose of this report is to provide an update on internal audit and counter fraud work carried out in 2020/21. The Council's internal audit and counter fraud plan was approved by this Committee in March 2020.

Internal Audit Progress report

7. Appendix 1 summarises the progress made in delivering 2020/21 internal audit work.
8. The audits listed are those that have been agreed with management as a priority for review during the year and which have either commenced or have been scheduled to take place. It is expected that no further audits will be added to the programme of work although support will continue to be provided where this is requested. For example, if additional assurance is required to support the Council's Covid-19 response before the end of the year.
9. A number of areas have been added to the work programme since the last report to this committee in December. These include work relating to Covid-19, such as a review of arrangements relating to supplier relief, post-assurance work on business grants paid out and the returns provided for the government's income compensation scheme. A number of other audits have needed to be deferred including commissioning (within Children's Services), the housing delivery vehicle and public health. These audits will be considered along with other priorities for inclusion in the 2021/22 audit plan.

10. All audits continue to be carried out remotely, for example through virtual meetings with officers and sharing of information electronically. This continues to provide some challenges and it is recognised that the Council's staff continue to be under significant pressure. We have regular liaison meetings with the S151 Officer and other key contacts who are providing support with helping to progress work and address any difficulties that arise.
11. We have continued to prioritise financial system audits that were not completed in 2019/20 due to the Covid-19 pandemic. An audit of debtors has now been finalised and other financial systems audits are either underway or are scheduled to commence soon. Work has also started or has been scheduled across other service areas. This includes work across each of the Council's directorates.
12. Work completed since the previous report to this Committee includes improvement plan governance (following the Council's Ofsted inspection in 2019), anti-social behaviour management, the Council's reablement service and its inclusion strategy for younger people.
13. A summary of work completed since the last report to this Committee, including the number of actions agreed and key issues identified, is included in Appendix 2.
14. Veritau has continued to follow-up the actions agreed by the previous internal audit service. A summary of the number of new actions agreed and implemented during 2020/21 can be found in Appendix 3.

Counter Fraud Progress report

15. The Council approved a new Counter Fraud Policy, Counter Fraud and Corruption Strategy (with associated action plan), as well as considering an updated Fraud Risk Assessment in September 2020. Revised Whistleblowing and Anti-Money Laundering policies were agreed in December 2020.

Covid-19 Related Fraud Risks

16. Councils have been given responsibility for the administration of Covid-19 grants to businesses across a number of schemes, e.g. Small Business Grant Fund, Local Authority Discretionary Grant Fund and Retail, Hospitality and Leisure Grant Fund. These schemes have been targeted by organised criminals operating nationally and internationally as well as false applications for grants by local businesses.
17. The Department for Business, Energy, and Industrial Strategy (BEIS) has required all councils administering grants to undertake an independent review of payments made during the first phase of lockdown. This work for Middlesbrough Council will be undertaken by the counter fraud and internal audit teams. A sample of payments will be taken, evidence scrutinised and checks made with external data sources to identify potential fraud and error.

National Fraud Initiative

18. The 2020/21 National Fraud Initiative (NFI) is underway. The NFI is a mandatory exercise run through the Cabinet Office every two years which matches a diverse set of data from all councils in the UK as well as other organisations like HMRC and local government pension authorities.

19. Checks were made to ensure that the Council had met the fair processing requirements. Data was then gathered, formatted, and uploaded to the Cabinet Office on schedule. The first tranche of data matches was released in February. There are over 5,500 matches across a range of Council areas.
20. The NFI will also examine Covid-19 payments this year. Grant payment data will be used to detect where businesses have erroneously or fraudulently accessed multiple grants, payments that may have been made to accounts linked to organised crime, and if state aid thresholds have been breached.

Fraud Awareness

21. Raising awareness of fraud with staff and how to report it is a key objective for the counter fraud team. The team has met with key service areas to arrange fraud awareness sessions and has already delivered training to members of staff in the Human Resources department. Further work is planned to help promote and raise awareness of the Council's whistleblowing procedure.

What decision(s) are being asked for?

22. That the committee:
 - notes the progress in delivering the 2020/21 internal audit and counter fraud plan and the outcomes from work completed since the last report to this committee.

Why is this being recommended?

23. Internal audit professional standards require that progress in delivering internal audit work, and the findings and outcomes from audit work are reported to the committee.

Other potential decisions and why these have not been recommended

24. This report is for information. There are no other options available.

Impact(s) of recommended decision(s)

25. There are no implications to this report in relation to:

- ***Legal***
- ***Financial***
- ***Policy Framework***
- ***Equality and Diversity***

Risk

26. The Council will fail to comply with proper practice for internal audit if Members are not regularly updated on progress of and outcomes from internal audit work.

Actions to be taken to implement the decision(s)

27. Any requests for additional assurance or clarification by Members of the Committee will be responded to accordingly.

Appendices

Appendix 1 – internal audit progress report February 2021

Appendix 2 – final internal audit reports issued

Appendix 3 – summary of agreed internal audit actions

Background papers

No background papers were used in the preparation of this report

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