

To: Audit, Risk and Scrutiny Board

On: 23 November 2020

Report by: Chief Auditor

**Heading: Internal Audit and Counter Fraud Progress and Performance for
Period to 30 September 2020**

1. Summary

- 1.1 The Internal Audit Annual Plan was approved by the Audit, Scrutiny and Petitions Board on 16 March 2020. Internal Audit measures the progress and performance of the team on a regular basis using a range of performance indicators. This report monitors progress from 1 April 2020 to 30 September 2020, in terms of the delivery of the Audit Plan for the year and compares actual performance against targets set by the Director of Finance and Resources.
- 1.2 In terms of Counter Fraud, no formal performance targets for fraud investigation have been established for the following reasons. A major part of their work involves being the single point of contact for DWP's Single Fraud Investigation Service and the Service Level Agreement for this work contains time targets for completing this work. A great deal of effort has also been on increasing fraud awareness amongst employees to prevent fraud from occurring against the Council. The types of fraud referrals received to date are wide ranging and the team's objective is to concentrate on investigating those referrals considered to contain the greatest fraud risk.
- 1.3 As a result of the COVID-19 pandemic, the majority of fraud investigation work was suspended until September 2020. This work has now recommenced with the team giving priority to the areas with the greatest fraud risk. Joint working with the DWP's Single Fraud Investigation service has also temporarily ceased and we are awaiting

a date for this work to recommence. Referrals for consideration of fraud investigations are still being passed to the DWP. All of the Counter Fraud Team are currently working at home.

- 1.4 The Internal Audit team are also home working full time and are continuing to work on planned audit assignments which we are able to undertake remotely. The team are also providing advice and support where necessary to council services. In addition, taking account of the current environment we are operating in, a review of the current audit plan has been undertaken and proposed amendments to the plan are included in this report for Members consideration.
- 1.5 The report details progress against local and national initiatives, including the National Fraud Initiative for 2020/2021, involving Internal Audit and the Counter Fraud Team from 1 April 2020 to 30 September 2020

2. **Recommendations**

- 2.1 Members are invited to note the Internal Audit and Counter Fraud Team progress and performance to 30 September 2020.
- 2.2 Members are asked to approve the proposed amendments to the Annual Internal Audit Plan for 2020/2021.
- 2.3 Members are asked to approve a delegation to the Chief Auditor to continue to monitor and, if necessary revise the Internal Audit Plan, in consultation with the Convenor, for the remainder of the year to March 2021. Any amendments made under this delegation will be reported to members in the annual report.

3. **Background**

- 3.1 The progress and performance of the Internal Audit Team is subject to regular monitoring using a number of performance measures. The Director of Finance and Resources has set annual targets for the team to demonstrate continuous improvement. In terms of the Counter Fraud team, there are time targets in place for responding to requests from the DWP's Single Fraud Investigation Service. Due to the diverse nature of fraud referrals no formal performance targets have been established and the outcomes from investigations is regularly monitored by management and reported to this Board.
- 3.2 Internal Audit and the Counter Fraud Team support a variety of local and national initiatives through participation in professional practitioner

groups and co-ordination of national initiatives such as the National Fraud Initiative.

4. Internal Audit Team Performance

(a) Percentage of audit plan completed as at 30 Sept 2020

This measures the degree to which the Audit plan has been completed

Actual 2019/20	Annual Target 2020/21	Audit Plan Completion Target to 30 Sept 2020	Audit Plan Completion Actual to 30 Sept 2020
95.4%	95.0%	42.8%	42.9%

Actual performance is currently in line with target.

(b) Percentage of assignments complete by target date

This measures the degree with which target dates for audit work have been met.

Target 2020/21	Actual to 30 September 2020
95.0%	96.0%

Actual performance is ahead of the target set for the year. It should be noted that target dates have been extended where necessary as it is taking longer to obtain information due to the priorities of services during the pandemic and the practicalities of home working.

(c) Percentage of audit assignments completed within time budget/

This measures how well the time budget for individual assignments has been adhered to.

Target 2020/21	Actual to 30 September 2020
95.0%	100%

Actual performance is ahead of the target set for the year, although this is likely to reduce over the remainder of the year. As the main focus in the first half of the year is to complete audits commenced in the prior year 2019/20 and undertake any investigations required, we were able to draw down the exact time required for this work from our contingency time pool. Our performance against this indicator is liable to change throughout the remainder of the year as additional resource is required to complete audit assignments in the current environment.

(d) **Percentage of audit reports issued within 6 weeks of completion of audit field work**

This measures how quickly draft audit reports are issued after the audit fieldwork has been completed.

Target 2020/21	Actual to 30 September 2020
95.0%	96%

Actual performance is ahead of the target set for the year.

5. Internal Audit's Response to COVID-19

5.1 All of our staff are currently home working and utilising the Council's various tools and techniques to continue to undertake audit assignments.

5.2 We have also liaising and advising services on proposed amendments to internal controls and new procedures as a result of changes to the Council's working practices and environment as a result of the pandemic. This includes being involved with the procedures introduced to pay new grants to local businesses to assist them to remain a going concern during this pandemic.

5.3 Some of our staff were seconded for a period to assist with the Council's response to COVID-19, resulting in an unplanned reduction in available resource for audit assignments.

5.4 Therefore, a full review of the 2020/21 Audit Plan in light of the emerging risks arising from COVID-19 and the reduction in available audit resource has been undertaken to identify whether any amendments or cancellations to the Audit Plan should be recommended to this Board. The following adjustments are recommended and have been discussed with members of the Corporate Management Team:-

5.4.1 Deletions to the 2020/21 Audit Plan

- a) **Corporate Health & Safety** – 20 Days – Due to the workload pressures currently facing this team as a result of the pandemic, it is proposed to delay this audit until 2021/22.
- b) **Administration of Medicines in Schools** – 25 Days – Undertaking this audit would involve visiting several schools and therefore it is proposed to cancel this audit to avoid any unessential footfall in schools during the pandemic.
- c) **Cash Transactions – Children's SW Establishments** – 20 days. This audit would involve visiting Social Work Establishments and therefore it is proposed to cancel this audit to avoid any unessential footfall in these establishments during the pandemic.

- d) **Disciplinary Procedures – 20 days** – It is recognised that the current environment has led to some delays in this area and therefore the timing of the audit would not be ideal. It is therefore, proposed to defer this audit until 2021/22.

5.4.2 **Additions to the 2020/21 Audit Plan**

Corporate Purchase Cards – 25 days – It is recognised that some of the internal controls over these purchases may have had to be amended to reflect the current home working environment and therefore it is prudent to examine the current controls in place at this time.

- 5.4.3 The scope and objectives of some of the other planned audit assignments will be refocused to concentrate on areas of greatest risk currently facing the Council. We are also in discussion with Renfrewshire Leisure regarding the audit work planned to undertaken within their organisation.

- 5.4.4 It is anticipated that any additional time available as a result of these adjustments will be utilised to supplement our contingency budget to March 2021 which is nearing full utilisation. This will enable us to continue to offer advice to services regarding new processes and procedures which are being introduced to assist Renfrewshire residents and businesses during this pandemic. A review of Cyber Security which was carried forward from the 2019/2020 audit plan will be prioritised from this resource.

6 **Counter Fraud Team Progress and Performance and their Response to COVID- 19**

- 6.1 In line with the Service Level Agreement, the Counter Fraud Team act as the Single Point of Contact (SPOC) to route potential housing benefit fraud referrals to the DWP, liaise with the Council's Housing Benefit Team and DWP Fraud Officers and retrieve the necessary evidence for the DWP Fraud Officers from the Housing Benefit System. In addition, we also work jointly work with DWP Fraud Officers on criminal fraud investigations which focuses on the investigation and prosecution of the LA administered Council Tax Reduction Scheme (CTRS) and Social Security benefit fraud. The majority of this work has been currently suspended by the DWP as their local fraud officers have been seconded to undertake other duties but it is our understanding that their compliance teams are dealing with some fraud work and plans are currently being put in place to enable fraud investigations to recommence. We continue to refer cases worthy of investigation to them for their consideration.

- 6.2 Two out of the 3 members of the Counter Fraud Team were seconded for a period to the Local Assistance Team which was established to assist Renfrewshire residents during the pandemic. Although one team

member is still assisting with track and trace phone calls, the team was returned to near full capacity as of mid-August 2020.

6.3 We are revising our working practices in order to protect the health of residents and staff during the pandemic, including contacting individuals, where possible, by telephone or e-mail rather than face to face visits. This has enabled us to resume undertaking some fraud investigation work.

6.4 The financial and non-financial results for the period up to quarter 2 (April 2020 to September 2020) are noted in the table below:-

Financial Outcomes	As at End of Quarter 2 (£)
Cash savings directly attributable to preventative counter fraud intervention	0
Cash recoveries in progress directly attributable to counter fraud investigations	16,254
Housing Benefit savings directly attributable to counter fraud investigation	4,395
Notional savings identified through counter fraud investigation, (e.g. housing tenancy and future council tax)	202,012
Non-Financial Outcomes	As at End of Quarter 2 (£)
Housing properties recovered	2
Housing applications amended/cancelled	0
Blue badge misuse warning letters issued	2
Licences revoked	0

6.5 We are also working closely with the Council's Economic Development Team offering advice on queries which have arisen from Small Business and Retail, Hospitality & Tourism Grant Applications received by the Council and investigating any suspected fraudulent activities in relation to these business grants applications, including referral to Police Scotland where appropriate. To assist in this work, daily lists are being collated and being sent to all Scottish Local Authorities detailing suspected fraudulent applications received throughout the country.

6.6 We are also liaising and offering advice to the Senior Service Delivery Officer responsible for establishing the procedures for payment of the new self-isolation payments to those on low incomes.

6.7 Cognisance is also being taken of the recent national reports published by Audit Scotland on the emerging fraud risks, arising during the pandemic and this will be used to amend our work plan where necessary to focus on the greatest fraud risk areas.

- 6.8 Work is also continuing documenting all our working practices into flowcharts to enable us to have a formal procedural guide and we are currently developing a fraud awareness i-learn package for staff.
- 7. National Fraud Initiative**
- 7.1 A member of the Counter Fraud Team has been undertaking a significant amount of preparation work for the next National Fraud Initiative exercise. The required data sets are currently being downloaded by Services and will be submitted in October 2020 and the data matches for checking should be received back by the Council in early February 2021.
- 7.2 Internal Audit has assessed its approach to the National Fraud Initiative against the Audit Scotland self-assessment checklist. The completed checklist is attached as Appendix 1 of this report and no identified improvements in approach are considered necessary.
- 8. Scottish Local Authorities Chief Internal Auditors' Group**
- 8.1 This group last met virtually in September and audit and financial planning in light of the current pandemic was the main focus.
- 8.2 The Local Authorities Computer Audit Sub-Group was also attended virtually during this quarter. The main discussion topic at this meeting was the ICT risks associated with the changes to the current working environment and practices which has been enforced upon Local Authorities.

Implications of the Report

1. **Financial** - The Council has in place arrangements to recover the any overpayments identified from the work of the Counter Fraud Team and the National Fraud Initiative.
2. **HR & Organisational Development** - None
3. **Community Planning –
Safer and Stronger** - effective internal audit is an important element of good corporate governance.
4. **Legal** - None
5. **Property/Assets** - None
6. **Information Technology** - None

7. **Equality & Human Rights** - None
8. **Health & Safety** – None
9. **Procurement** - None
10. **Risk** - The progress and performance reported relates to the delivery of the risk-based internal audit plan and the mitigation of the risk of fraud and error.
11. **Privacy Impact** – None
12. **COSLA Implications** – None
13. **Climate Risk** - None

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Part A Leadership, commitment and communications	Yes / No / Partly	Is Action Required
1. Are we aware of emerging fraud risks, eg due to Covid-19, and taken appropriate preventative and detective action	Yes - We are heavily involved in suspect business grant claims with the Economic Development Service and have taken part in various national training events on fraud risks as a result of COVID -19	No
2. Are we committed to the NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes - NFI preparation and progress is reported to Audit, Risk and Scrutiny Board. Training is provided to members. The Director of Finance is the Senior Responsible Officer and the exercise is managed by the Chief Auditor.	No
3. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	Yes - there is a Counter Fraud Policy in place and it is incorporated into the Counter Fraud Business Plan.	No
4. Have we considered using the point of application data matching service offered by the NFI team, to enhance assurances over internal controls and improve our approach to risk management?	Yes - Appchecker has been used in the past and has influenced the approach to regular data matching.	No
5. Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?	Yes - Counter Fraud activity outcomes, including NFI results are reported quarterly alongside the outcome and performance report presented to the Audit, Scrutiny and Risk board. Overall NFI results are reported at the end of the biennial exercise.	No
6. Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	Yes - Risk based assessment of matches. All reports are worked and updated on the NFI web application.	No

7. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Yes - Internal Audit is responsible for co-ordinating the exercise and regularly review outcomes identified. The findings from the NFI are considered as part of Internal Audit annual planning.	No
Part B: For the NFI key contacts and users		
Planning and preparation		
1. Are aware of emerging fraud risks, eg due to Covid-19, and taken appropriate preventative and detective action?	Yes - Counter Fraud involved in the audit of Business Grant applications.	No
2. Are we investing sufficient resources in the NFI exercise?	Yes - time included in audit plan and regular engagement with service through counter fraud team monitoring.	No
3. Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.	Yes - full planning process and detailed action plan in place.	No
4. Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?	Yes - Chief Auditor supplemented by the Senior Counter Fraud Officer	No
5. Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?	Yes - included in work plan	No
6. Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that the NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?	Yes - considered as part of risk-based assessment.	No
7. Do we confirm promptly (using the on-line facility on the secure website) that we have met the fair processing notice requirements?	Yes - deadline met	No
8. Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes - detailed action plan in place to ensure compliance.	No

9. Have we considered using the point of application data matching service offered by the NFI team, to enhance assurances over internal controls and improve our approach to risk management?	Yes - Appchecker has been used in the past and has influenced the approach to regular data matching.	No
Effective Follow Up of Matches		
10. Do all departments involved in the NFI follow-up of matches promptly after they become available?	Yes - monitored by IA and any resource difficulties are discussed with the service and the Director of FARS	No
11. Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?	Yes - risk based assessment of matches.	No
12. Are we investigating the circumstances of matches adequately before reaching a no issue outcome, in particular?	Yes	No
13. (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter-fraud Services?	N/A	No
14. Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)? Are we recovering funds effectively?	Yes - all relevant actions are considered	No
15. Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error?	Yes - risk based assessment of matches.	No
16. Where the number of high-risk matches is very low, are we adequately considering the medium and low-risk matches before we cease our follow-up work?	Yes	No

17. Overall, are we deploying appropriate resources on managing the NFI exercise?	Yes - any resourcing issues are discussed with the Service and Director of FARS as appropriate.	No
Recording and reporting		
18. Are we recording outcomes properly in the secure website and keeping it up to date?	Yes - monitored by IA	No
19. Do staff use the online training modules in the secure website and do they consult the NFI team if they are unsure about how to record outcomes?	Yes - training is provided to staff responsible for following up matches, training includes notifying of online training modules available on NFI web application.	No
20. If, out of preference, we record some or all outcomes outside the secure website have we made arrangements to inform the NFI team about these outcomes?	Yes	No