

Audit Committee

25 November 2021



Title	Interim Internal Audit Report
Purpose of the report	To note
Report Author	Punita Talwar, Internal Audit Manager
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	Not Applicable
Corporate Priority	All
Recommendations	Committee is asked to: (1) Note the Interim Internal Audit report
Reason for Recommendation	Not applicable

1. Key issues

- 1.1 Internal Audit is defined as “An *independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*” (Public Sector Internal Audit Standards)
- 1.2 This report summarises work undertaken by the Internal Audit team for the period April to October 2021, with details set out at Appendix 1.
- 1.3 Appendix 1 includes recommendations arising from Internal Audit reviews aimed at reducing risks and strengthening internal controls, highlighting assurance opinions where appropriate. Progress on implementation of audit recommendations (status) is provided where appropriate and in other areas confirmation of recommendations agreed for implementation by corporate management team, Group Heads and managers has been recorded.
- 1.4 The team supported with externally commissioned audit resource continue to provide assurance across a diverse workplan and have reported on several areas of good practice operating with some examples as follows:
 - (i) ICT General Controls Health check audit - Barracuda Web Security Gateway software is used to provide proactive web security including the identification and blocking of potential known spyware/ virus threats; real time capacity reporting is used to identify any bandwidth/ performance issues; the configuration of internal and external firewalls provides

increased resilience as is it provides a redundant/ failover facility in the event that one fails; Active directory passwords are configured to require a good standard of complexity; a backup routine is in place to ensure regular backups of systems and data are taken and stored offsite for increased resilience.

- (ii) ICT Network Infrastructure Audit - An annual penetration test is undertaken to identify any network issues/ vulnerabilities to be addressed; Internal vulnerability scanning of the network is undertaken on a weekly basis; Network security roles and responsibilities are defined as part of the Information Security Policy framework.
- (iii) Commercial Asset Income - Robust monitoring arrangements for commercial asset income with an impressive collection rate of 99.3% for 2020/21 despite the pandemic challenges; well established system in place to ensure that loan repayments are generated in a timely manner, accurate and appropriately authorised; management information and performance monitoring is clear, comprehensive and timely, further improved during the pandemic as the risks of tenant failure and lost revenue was high.
- (iv) Property Development - Despite the pandemic challenges, it is acknowledged that the Assets team have continued to prioritise delivery of development schemes where possible. Strengthening of governance arrangements with a dedicated Corporate Policy and Resources Committee and Development Sub Committee in operation for development projects.
- (v) Climate Change and Workplace Culture audits - Corporate Commitment to pursue Climate Change measures and develop an Organisational values and behavioural framework.
- (vi) Debtors - Management oversight and approval of key debtor processes; timely raising of invoices; prompt completion of financial reconciliations; quarterly revenue monitoring reports highlighting variances; Corporate Debt officer working group oversight.
- (vii) Community Infrastructure Levy (CIL) – A significant proportion of CIL income transactions had been paid (86%) over a period of six years from 2015/16; evidence of compliance with key statutory requirements for CIL; Corporate Debt officer working group oversight.
- (viii) Business Support Grants – Prompt administration and processing of grants relating to multiple government schemes to support local businesses at a critical time; application of Spotlight, a tool to complement pre-award due diligence checks and highlight areas of risk to inform grant-making decisions.

1.5 In addition to planned audit reviews, there are several other workstreams undertaken by the team (including corporate roles and tasks), set out at Appendix 1. Some examples of how Internal Audit supports the organisation in achieving its objectives and adds value are summarised below:

- (a) Statutory Reporting to the Audit Committee – Several reports are produced and presented in accordance with the Committee work programme. This ensures adherence to Public Sector Internal Audit Standards (PSIAS) and supports corporate governance arrangements.

- (b) **Advisory Role** - Reactive and pro-active advice provided to services and corporate groups on various risk and control issues, including new systems and processes.
- (c) **Unplanned reviews** – Where the level of associated risk is deemed to be reasonably high, unplanned reviews or analysis work may be prioritised in the provision of assurance to the authority.
- (d) **Counter Fraud Oversight** - Coordination and reporting of counter fraud outcomes and progressing initiatives for tackling high risk public fraud through continued collaborative working with partners. Further to continuous efforts to target social housing fraud working alongside Housing and registered providers, we are able to initiate a data matching exercise which is anticipated to produce significant returns (subject to funding approval).
- (e) **Corporate Risk Management** – Coordination and reporting on the Council's Corporate Risk Register representing the Council's most significant strategic risks. Training has been delivered in September to raise awareness of corporate approaches to risk management and launch the summarised policy guide. Developing a Risk Appetite Framework (RAF) for Spelthorne is a work in progress and represents an important step in the Council's risk maturity.

2. Options analysis and proposal

- 2.1 There are no options.
- 2.2 Implementation of audit recommendations will reduce risks for the authority and enhance the robustness of the control environment which is acknowledged by the Council's Management Team and the Audit Committee.
- 2.3 Failure to undertake internal audit work to the required professional standards would lessen the reliability of assurance provision to the Council that effective control systems and governance arrangements are in place and could result in an increase in the Council's annual external audit fee.

3. Financial implications

3.1 Corporate fraud returns collated by Internal Audit demonstrate quantifiable financial returns in the form of fraud losses prevented/savings achieved for Spelthorne. From January 2015 to June 2021, cumulative notional savings to the public purse exceed £2.72m (based on Cabinet Office estimated savings to the public purse) of which £555k represents quantifiable cashable savings for Spelthorne. A breakdown analysis of cumulative fraud returns across high-risk public fraud categories since the commencement of the Surrey Counter Fraud Initiative (January 2015 to June 2021) are shown below:

<i>Fraud Category</i>	<i>2015 to 2021 Notional Savings £</i>	<i>Percentage of cumulative total 2.72m</i>
Housing register and homelessness applications	1,163,380 1.16m (rounded)	42.63 43% (rounded)
Social Housing	162,000	5.93 6% rounded

Business rates	1,089,060 1.09m (rounded)	39.9 40% (rounded)
Council Tax Discount	242,694	8.89% 9% (rounded)
Council Tax Support	71,296	2.61 2% (rounded)
TOTALS	£2.72 m £2,728,430	100%

3.3 A further breakdown of quantified fraud returns (positive outcomes) reported over the last four financial years is set out in the table below.

<u>YEAR</u>	<i>Housing Register & Homelessness Applications (2 categories)</i>	<i>Social Housing Fraud</i>	<i>Business Rates</i>	<i>CTAX Discount</i>	<i>CTAX Support</i>	<u>NOTIONAL £</u>	<u>CASHABLE £</u>
2017/18	180,000 + 198,000 = 378,000	54,000	226,963	0	18,342	677,305	92,603
2018/2019	306,000 + 54,000 = 360,000	0	281,050	241,904	6,620	889,574	154,000
2019/2020	47,380 +69,840 =117,220	0	0	0	19,165	136,385	11,000
2020/21	48,600 +51,840 = 100,440	0	0	790	5,852	107,082	62,300
Totals Rounded	955,660	54,000	508,013	242,694	49,979	1,810,346 1.81m	319,903 320,000

3.4 From April 2019 Cabinet office estimated notional savings to the public purse applicable for each Housing register and homelessness application withdrawn were significantly reduced from 18,000 to 3,240 per case. This largely accounts for the decrease in notional savings reported from that period as indicated in the table above at 3.3. On the contrary the value of estimated fraud losses for all forms of social housing fraud were significantly increased by the Cabinet Office from 18,000 to £93,000 per case (property recovered) and are therefore being actively targeted. The cooperation of registered providers will be essential to promote positive progress and outcomes in this area (as referred to earlier at paragraph 1.5 (d)).

3.5 A further table below summarises anticipated positive outcomes for social housing fraud if a planned bulk data matching exercise proceeds (subject to funding approval of associated legal costs and a growth bid has been submitted by the Housing Strategy lead Officer). Such proactive approaches support Spelthorne's approved Counter fraud, bribery and corruption strategy and send a strong public message regarding zero tolerance to fraud. The strategy highlights the need to target social housing fraud given the likely extent of fraudulent activity and the anticipated social benefits and financial

returns to be derived. The figures in the table below quantify the high probability for achieving impressive financial fraud savings as well as wider social benefits in terms of freeing up social housing for those individuals and families in genuine need. This will of course contribute to delivering the Council's corporate priority of 'Affordable Housing'.

Registered Provider	Number of Social Housing Units	Proportion (%) of social housing tenancies estimated to be fraudulently occupied **	Cabinet office estimated fraud savings/financial losses prevented per case (property recovered) ***	Total estimated financial fraud savings
A2 Dominion *	4,435	5% equates to 221 units (rounded) **	£93,000 ***	£20,553,000 20.5m (rounded)

* The exercise is planned to target this registered provider's portfolio in the first instance given they hold the greatest number of affordable housing units across Spelthorne.

**Based on national average and guidance from professional counter fraud and government organisations where a social housing portfolio has not been previously subject to large scale review or data matching exercises.

*** This estimated savings figure (notional) advised by the Cabinet Office relates to every social housing tenancy recovered.

3.6 Continued referrals of suspected fraud and pursuit of proactive and collaborative counter fraud initiatives accessible across all high-risk fraud categories will contribute to maximising financial returns.

4. Other considerations

4.1 There are none.

5. Equality and Diversity

5.1 Appendix 1 gives reference to an audit review of Workplace Culture where the importance of embedding a values and behavioural framework across key Council policies, processes and practices has been recommended.

6. Sustainability/Climate Change Implications

6.1 Appendix 1 gives reference to an audit review of Climate Change and there is also inclusion on the Council's Corporate Risk Register, given that it represents a significant risk category of a global nature.

7. Timetable for implementation

- 7.1 Implementation of audit recommendations within target timescales proposed and audit status (open or closed) will continue to be monitored as part of the follow up process, to coincide with Audit Committee reporting timescales throughout the year (November, March and July).

Background papers:
Internal audit reports
Corporate Risk Register
Counter Fraud Returns

Appendices

Appendix 1 – Summary of workstreams undertaken by the Internal Audit team for the period April to October 2021