

Report for: Corporate Committee – 8 February 2016

Item number: 11

Title: Internal Audit Progress Report 2015/16 – Quarter 3

Report authorised by : Assistant Director of Corporate Governance

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision: Information**

1. Describe the issue under consideration

- 1.1 This report details the work undertaken by the Internal Audit and Counter Fraud Teams in the quarter ending 31 December 2015 and focuses on:
- Progress on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised – work undertaken by the external provider (Mazars); and
 - Progress by management in implementing outstanding internal audit recommendations; with particular attention given to priority 1 recommendations; and
 - Details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house counter Fraud Team.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

- 3.1 The Corporate Committee is recommended to note the audit coverage and counter-fraud work completed.

4. Reasons for decision

- 4.1 The Corporate Committee is responsible for monitoring the completion of the annual internal audit plan and the implementation of agreed recommendations as part of its Terms of Reference.
- 4.2 In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee on the work undertaken by the Internal Audit Service in completing the 2015/16 annual audit plan, together with the responsive and pro-active fraud investigation work. Where further action is required or recommended, this is highlighted with appropriate recommendations for the Corporate Committee.

5. Alternative options considered

5.1 Not applicable.

6. Background information

6.1 The information in this report has been compiled from information held within Audit & Risk Management and from records held by Mazars.

7. Contribution to strategic outcomes

7.1 The internal audit and counter-fraud teams make a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

There are no direct financial implications arising from this report. The work completed by Mazars is part of the framework contract which was awarded to the London Borough of Croydon and extended to 31 March 2016, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget.

The financial benefits to the Council of the work completed during 2015/16 as part of the ongoing tenancy fraud project will be realised as properties are recovered and returned to the Council's portfolio. The Cabinet Office estimates that the costs of fraudulent tenancies and unauthorised sub-letting equate to £18k per annum per property, mainly relating to additional costs for temporary accommodation.

Preventing fraudulent Right to Buy applications ensures that properties are retained within the social housing stock and discounts of up to £102k per property are not allocated to those who are not entitled to receive them.

8.2 Legal

The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and advises that there are no direct legal implications arising out of the report.

8.3 Equality

This report deals with how risks to service delivery are managed across all areas of the Council, which have an impact on various parts of the community. The report also contains details of how fraud investigation work is undertaken and pro-active fraud projects are managed; preventing and detecting fraud will assist in improving services to residents.

9. Use of Appendices

Appendix A – Mazars Progress report – Internal audit

Appendix B – In-house Team – investigations into financial irregularities

10. Local Government (Access to Information) Act 1985

Not applicable

11. Performance Management Information

11.1 Although there are no national or Best Value Performance Indicators, local performance targets have been agreed for Audit and Risk Management. Table 1 below shows the targets for each key area monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1

Ref.	Performance Indicator	3 rd Quarter	Year to date	Target
1	Internal Audit work (Mazars) – Days Completed vs. Planned programme	100%	40%	95%
2	Priority 1 recommendations implemented at follow up	N/A	N/A*	95%
4	Tenancy fraud – properties recovered	10	27	40
5	Right to Buy – fraudulent applications prevented	25	75	80

* Follow up programme has commenced in Qtr 3.

13. Internal Audit work – Mazars

13.1 The activity of Mazars for the second quarter of 2015/16 to date is detailed at Appendix A. Mazars planned to deliver 150 days of the annual audit plan (788 days) during the quarter and actually delivered 154 days audit work during the quarter. Although the overall completion rate of the plan, to final report stage, is below expected at this stage of the year, this position is expected to improve during Quarter 4 as reports are finalised. No issues have been identified to prevent completion of the plan. Ongoing monthly contract monitoring reviews ensure that performance levels are kept under review.

13.2 Members of the Corporate Committee receive detailed summaries of all projects for which a final report has been issued on a monthly basis to allow for any concerns which members may have to be considered in a timely manner. Appendix A provides a list of all final reports which have been issued during the quarter.

13.3 Mazars have started the formal follow up audit programme in quarter 3 and the outcomes of this programme will be reported to the next meeting of the Corporate Committee.

14. In-house Counter-Fraud Team: Fraud investigation/Pro-active work

14.1 Internal employee investigations

In accordance with the Council's Constitution, the in-house Fraud Team investigates all allegations of financial irregularity against employees. Appendix B details the individual cases that were completed by the team in the third quarter 2015/16 relating to Council employees.

Within the third quarter, five new cases relating to permanent and temporary employees were referred to the Fraud Team. Three cases were completed during the quarter involving permanent Council employees. In all cases closed in Quarter 3, no evidence was found to substantiate the allegations made, although recommendations were made to improve controls in service areas to minimise risks in future. 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 Head of Audit and Risk Management maintains the central record of referrals made using the Council's Whistleblowing Policy. During the third quarter the Head of Audit provided a briefing and presentation to all senior managers, and publicity via the staff newsletter, on the Council's whistleblowing policy and how to use it.

Nine whistle blowing referrals were made during Quarter 3, eight of which were anonymous, making a total of 16 referrals to date. One referral related to Homes for Haringey and was provided to their HR service for further review. Five referrals related to non-financial issues and were referred to the relevant Assistant Directors and HR for their investigation. Two referrals related to financial issues and one investigation was completed by the Fraud Team, which found no evidence to support the allegation; one investigation is ongoing. One referral sent to the Head of Audit is awaiting further information from the individual as they provided no evidence to support their original referral but stated that they had evidence and would make this available.

14.2 Tenancy Fraud – council properties

In 2015/16, the numbers of referrals received, investigations completed and properties recovered to date by the Fraud Team are summarised below.

2015/16 – Referrals received

Brought forward from 2014/15		61
2014/15 cases not previously included		31
Tenancy Management Officer	65	
Fraudcall (freephone and email)	13	
Pro-active exercises	7	
Public	1	
Other LA	1	
Other Haringey Service	13	
Total referrals received in 2015/16 to date		100
Total referrals received for investigation		192

2015/16 Outcomes

Properties Recovered	27	
No Fraud identified	81	
Total cases concluded		108
Ongoing Investigations		84*
*See Note 1 below		

Note 1: Of the 84 ongoing investigations; **33** of these cases (39%) are with Legal Services and progressing towards tenancy recovery, giving a total potential recovery of **60 properties** for 2015/16. The property will be included in the 'recovered' data when the keys are returned and the property vacated.

The Fraud Team are liaising with Legal Services on individual cases to ensure these are progressed as quickly as possible. For the ongoing investigations where tenancy recovery is in progress; the status of the tenancy has been investigated and the case is either awaiting a Court Hearing, the Particulars of Claim are with Legal Services, an NTQ is awaiting expiry, a succession application has been refused and the tenant is

awaiting an offer of smaller accommodation, or the rent account is showing an 'Unauthorised Account' on the Housing database.

Financial Values 2015/16 (to date)

The Audit Commission valued the recovery of a tenancy, which has previously been fraudulently occupied, at an annual value of £18,000, mainly relating to average Temporary Accommodation (TA) costs.

No new national indicators have been produced, therefore although this value is considered low compared to potential TA costs if the property has been identified as sub-let for several years, Audit and Risk Management continue to use this figure of £18k per property for reporting purposes.

In 2015/16 to date, **27** properties have been recovered through the actions and investigations of the Fraud Team; therefore **a total value of £486k** can be attributed to the recovery, or cessation, of fraudulent tenancies. If all remaining investigations are concluded within 2015/16, and 60 properties are recovered, the total financial value of the tenancy fraud work would **exceed £1 million** for the 2015/16 financial year.

The Fraud Team works with Homes for Haringey (HfH) to target and investigate housing and tenancy fraud, which forms part of HfH's responsibilities in the Management Agreement. The DCLG provided funding to local authorities to support tenancy fraud work and Haringey agreed with HfH that they would second a Tenancy Management Officer to the Fraud Team (with the DCLG grant paid to HfH to enable cover for the TMO to be obtained) to undertake reactive tenancy fraud investigations. This grant funding ended in May 2015, with no further grant funding available from the DCLG or other sources.

HfH have continued to fund the seconded officer directly after the end of the DCLG grant, and this agreement has been extended to 15 January 2016. The Fraud Team will continue to work with HfH to identify the most effective use of fraud prevention and detection resources across both organisations to enable a joined up approach to be taken, especially where cases of multiple fraud are identified e.g. tenancy fraud, right to buy fraud and benefit fraud. The longer term solution for tenancy fraud prevention and detection, including investigation resources, will be developed during 2015/16.

14.4 Right-to-buy (RTB) applications

To date, over 200 applications have been referred to the Fraud Team in 2015/16; and the team currently has approximately 305 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.

In 2015/16 to date, **75** applications have been withdrawn or refused either following the applicants' interview with the Fraud Team, further investigations and/or the requirement to complete money laundering processes; 11 applications have been cleared for progression; and 305 applications are currently under investigation, with the Fraud Team awaiting responses from applicants in 173 cases.

Overall, the 75 cases represents **over £7.5m in RTB discounts** and means the properties are retained for social housing use.

14.5 National Fraud Initiative (NFI) – data matching exercise 2015

The National Fraud Initiative (NFI) is a statutory biennial data matching exercise which was managed by the Audit Commission (now the Cabinet Office). The data matches from the exercise are shared, via a secure website, with the Council to enable further investigations to take place. The initial data matches were made available to the Council in February 2015; the deadline for completing investigations is 31 December 2015, although some ongoing investigations will continue after this date.

The total potential data matches for each area are identified and, within this total, a number of 'recommended' matches, which are considered to have the highest risk of potential fraud linked to them, are highlighted. The Fraud Team focuses on completing their investigations into the 'recommended' matches and will select a further sample from the total matches for each area for investigation on a risk basis.

A summary of the NFI matches received and investigations completed, together with the number of fraud/errors identified is detailed in Table 2 below.

Table 2 – Summary of NFI potential data matches received

NFI area	Total Number of Matches identified	Total 'Recommended' Matches identified	Total number of investigations completed to date	Number of ongoing Investigations	Number of frauds/errors identified
Housing Benefits	8,522	2,799	865	0	6
Payroll	167	64	41	16	0
Pensions	204	62	87	0	0
Housing Tenants	494	141	227	11	1
Right to Buy	386	284	274	2	0
Insurance claimants	58	7	5	0	0
Blue badge permits	417	398	398	0	0
Personal Budgets	278	110	278	0	61
Private Residential Care Homes	26	13	26	0	9
Total	10,552	3,878	2,201	29	77

Summary details where fraud/errors were identified

A total of 77 cases of fraud or error, with a total value of £179.9k, were identified as a result of investigations into 2,101 data matches (3.6%). The Fraud Team undertook the investigations into data matches on a risk basis, and aligned the investigations with existing pro-active work programmes wherever possible to utilise resources effectively. Details of the outcomes where fraud and/or errors were identified are summarised below.

1. Housing Benefits:

Six frauds/errors were identified, with a total value of £136.4k. All overpayments are in the process of being recovered, some via ongoing entitlement. Two members of staff were included in the overpayments identified; they had not declared changes in

circumstances e.g. changes in hours worked, increases in salary, resulting in overpayments of £3k and £6k. Disciplinary action was taken in accordance with the Council's Code of Conduct; benefit claims have been reassessed and repayment plans have been put in place. One benefit claimant did not have access to public funds resulting in an overpayment of £44k; the benefit claim was cancelled and recovery is being sought. All future NFI fraud investigations relating to Housing Benefits should be undertaken by the DWP's Single Fraud Investigation Service (SFIS).

2. Housing Tenants:

One error was identified relating to the incorrect recording of an individual's National Insurance number. The database was corrected, no financial error or fraud was identified.

3. Personal Budgets:

Sixty one errors were identified, all relating to different recording of address information, or incorrectly omitting the benefit details on the system which triggered the error report. No financial issues, frauds, or errors were identified by the data set matches.

4. Private Residential Care Homes:

Nine errors identified relating to the date of death for the client and subsequent overpayments to care home providers. The total of £43.5k was reclaimed from providers either by invoice, where the individual was the only client, or by recovery from subsequent payments to the care home where the Council has more than one service user resident in the care home.