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| <b>Report for:</b> | Corporate Committee<br>27 June 2013 | <b>Item number</b> |  |
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| <b>Title:</b> | Internal Audit Progress Report – 2012/13 Quarter 4 |
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| <b>Report authorised by :</b> | Director of Corporate Resources <i>J. Parker 18/6/13</i><br>Assistant Chief Executive <i>Stuart K.</i> |
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| <b>Lead Officer:</b> | Anne Woods, Head of Audit and Risk Management<br>Tel: 020 8489 5973<br>Email: <a href="mailto:anne.woods@haringey.gov.uk">anne.woods@haringey.gov.uk</a> |
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| <b>Ward(s) affected: ALL</b> | <b>Report for: Non-Key Decision</b> |
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1. Describe the issue under consideration
  - 1.1 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. 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 2012/13 annual audit plan, together with the responsive pro-active fraud investigation work, and housing benefit fraud investigation work. Where further action is required or recommended, this is highlighted in the report and appendices and included in the recommendations for the Corporate Committee.
  - 1.2 The report also provides information from the Council's Human Resources (HR) business unit in respect of (a) work undertaken in supporting disciplinary action taken across all departments by respective Council managers; and (b) consultants employed by the Council.
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 during the fourth quarter, 2012/13.
- 3.2** That the Corporate Committee reviews the management responses received for those audit recommendations not fully implemented; and confirms that the managers' actions taken during the quarter to address the outstanding recommendations are appropriate.
- 3.3** The Corporate Committee note the information received from the HR business unit.

### **4. Other options considered**

- 4.1** Not applicable.

### **5. Background information**

- 5.1** The internal audit service and counter-fraud teams make a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council. This report looks at the work undertaken in the quarter ending 31 March 2013 and focuses on:
- Progress by Deloitte and Touche on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised;
  - Progress in implementing outstanding internal audit recommendations with particular attention given to priority 1 recommendations;
  - Details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities, including those within the remit of the Corporate Anti-Fraud and Housing Benefit Fraud Investigation Teams;
  - Information in respect of disciplinary action taken by managers across all departments of the Council during the quarter; and
  - Details of consultants employed by all departments across the Council to the end of March 2013.
- 5.2** The information in this report has been compiled from information held within the Audit & Risk Management business unit and from records held by Deloitte and Touche and the Council's corporate HR business unit.

### **6. Comments of the Chief Financial Officer and Financial Implications**

- 6.1** There are no direct financial implications arising from this report. The work completed by Deloitte and Touche is part of the framework contract which was awarded to the London Borough of Croydon from 1 April 2012, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget.



## **Haringey Council**

6.2 The financial benefits to the Council of the work completed during 2012/13 as part of the ongoing tenancy fraud project will be realised as properties are recovered and returned to the Council's portfolio. The Audit Commission estimate that the costs of fraudulent tenancies and unauthorised sub-letting equate to £18k per annum per property. During the fourth quarter, a further Council property was recovered.

6.3 The work undertaken to review and investigate potential fraudulent Right to Buy (RTB) applications ensures that discounts of up to £75k per property are approved for genuine applications. During the year, 15 RTB applications were either withdrawn or stopped as a result of the team's investigations, with a total value of £1m.

### **7. Legal Implications**

7.1 The Council's Head of Legal Services has been consulted in the preparation of this report, and advises that the Committee has the Constitutional power to adopt the recommendations sought.

7.2. The Head of Legal Services further advises that there are no direct legal implications arising out of the report.

### **8. Equalities and Community Cohesion Comments**

8.1 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. Improvements in managing risks and controls will therefore improve services the Council provides to all sections of the community.

### **9. Head of Procurement Comments**

9.1 Not applicable.

### **10. Policy Implications**

10.1 There are no direct implications for the Council's existing policies, priorities and strategies. However, improving controls and reducing the opportunity for fraud to take place in the first place, and taking appropriate pro-active action to detect and investigate identified fraud will assist the Council to use its available resources more effectively.

### **11. Use of Appendices**

11.1 Appendix A – Deloitte and Touche Progress report  
Appendix B – In-house Team – Investigations into financial irregularities  
Appendix C – Council-wide disciplinary information  
Appendix D – Consultants employed by the Council as at 31 March 2013.



## 12. Performance Management Information

12.1 Although there are no national or Best Value Performance Indicators, key local performance targets have been agreed for Audit and Risk Management. These form part of Corporate Resources' reporting processes, but are detailed below for information. Table 1 below shows the targets for each key area monitored in 2012/13 and gives a breakdown between the quarterly and cumulative performance.

**Table 1**

| PI Ref. | Performance Indicator   | 4 <sup>th</sup> Quarter | Year to date | Target |
|---------|---|-------------------------|--------------|--------|
| 1       | Audit work – Days Completed vs. Planned programme                       | 93%                     | 94%          | 95%    |
| 2       | Priority 1 recommendations implemented at follow up                     | 100%                    | 85%          | 95%    |
| 3       | Benefit fraud cases completed and accepted for prosecution              | 9                       | 35           | 30     |
| 4       | Benefit overpayments recovered (including POCA and confiscation awards) | £41.8k                  | £67.2.0k     | £150k  |

## 13. Internal Audit work – Deloitte and Touche contract

13.1 The activity of Deloitte and Touche for the fourth quarter of 2012/13 to date is detailed at Appendix A. Deloitte and Touche planned to deliver 219 days of the 2012/13 annual audit plan (876 days) during the quarter. Deloitte and Touche actually delivered 203.25 days audit work during the quarter, which is slightly below the level of the planned work. Overall the level of completed work was just below the annual target, but completion rates as at 30 April (to take into account the Easter period) were above the 95% target. 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 issues to be considered in a timely manner. Appendix A provides a list of all final reports which have been issued during the quarter, together with detailed summaries of the findings and recommendations of those reports which received a 'limited' assurance rating.

13.3 Appendix A also provides detailed summaries of all recommendations which were previously recorded as outstanding at the time of the follow up audit work. Members have been monitoring the progress and implementation of these at the previous Audit Committee meetings to ensure that managers were taking appropriate action to address outstanding recommendations. Four recommendations from prior years remain outstanding, with only one high priority recommendation remaining as 'partly implemented'. Work is ongoing to





**Haringey Council**

address the Priority 1 recommendation and Internal Audit are satisfied that the interim controls in place manage the risks adequately; and that managers' actions are appropriate to manage these lower priority risks facing the Council. Internal Audit will continue to monitor implementation of recommendations to ensure appropriate actions are taken to mitigate identified risks.

13.4 A summary of all follow up audit projects for 2011/12 work which have been undertaken is also included in Appendix A. We have followed up on 107 recommendations to date and found that 83 have been implemented, 13 are no longer applicable including 10 relating to establishments that are now closed, 8 are in progress, and 3 have not been implemented. Overall, a compliance rate of 90% has been achieved for the fourth quarter. Three Priority 1 recommendations remain outstanding (1), or in progress (2).

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

14.1 In accordance with the Council's Constitution, Internal Audit investigates all cases that fall outside the remit of the Housing Benefit Fraud Investigation Team and the Council's Information Security Policy. Appendix B details the individual cases that were completed by the In-house Team in the fourth quarter of 2012/13 and any which were brought forward from 2011/12, relating to Council employees. The listing at Appendix B also includes any referrals made using the Council's whistle blowing policy which were investigated by Internal Audit. During the fourth quarter, no staff-related whistle blowing referrals were made.

14.2 Within the fourth quarter, no new cases relating to permanent and temporary employees were referred to Internal Audit by management. Four cases were completed during the quarter involving Council employees. Internal Audit work closely with officers from personnel and the service involved to ensure that the investigation is completed as quickly as possible.

14.3 The section has been continuing to work with Homes for Haringey and the Strategic and Community Housing Service to target and investigate housing and tenancy fraud during 2012/13. The Audit Commission estimate that each fraudulent tenancy costs councils an estimated £18k in temporary accommodation and other associated costs.

14.4 As at 31 March 2013, 148 referrals of suspected tenancy fraud have been received by the team during 2012/13 (108 received in total during 2011/12) and Table 2 below summarises the source of these referrals:

**Table 2**

| <b>Referrals Received From:</b>           | <b>Number</b> |
|---|---------------|
| Tenancy Management Officer                | 86            |
| Fraudcall (email and freephone telephone) | 2             |
| Registered Providers                      | 51            |



**Haringey Council**

| <b>Referrals Received From:</b>                | <b>Number</b> |
|--|---------------|
| Members of the Public                          | 1             |
| Joint investigation with Housing Benefit Fraud | 4             |
| Education Welfare Officers                     | 0             |
| National Fraud Initiative                      | 0             |
| Police   | 0             |
| Other Local Authority                          | 1             |
| Member   | 1             |
| Legal Services                                 | 0             |
| Haringey Staff                                 | 2             |
| Customer Services                              | 0             |
| <b>Total</b>                                   | <b>148</b>    |

- 14.5 During 2012/13, 30 Haringey properties have been recovered in total, plus a further nine applications for Succession, or Grant of Tenancy, refused on evidence of ineligibility, so the tenancies can be allocated to tenants in accordance with the Council's lettings policy. In addition, seven Registered Providers' properties have also been recovered. Advice and recommendations for further action have been made by the Corporate Anti-Fraud Team to the Tenancy Management Teams in seven further cases.
- 14.6 Investigations are ongoing in 57 cases; and 56 cases which were referred to the team as a potential fraudulent tenancy case resulted in no further action being taken. Feedback on the outcomes of cases is provided to housing and Homes for Haringey staff during regular case conferences and team meetings to show the positive outcomes resulting from their referrals. The total of 30 properties recovered to date includes action taken in six cases by housing officers.
- 14.7 In addition to the above details relating to tenancy fraud, the Corporate Anti-Fraud Team has also abated two fraudulent 'Right to Buy' applications from proceeding where the maximum discount of £75k was being claimed by the applicants. Nine cases are presently with Legal Services awaiting Court application, or Hearing. The first application for possession is being made under the Prevention of Social Housing Fraud Act 2013; which will include an application for an Unlawful Profit Order (S.5). Further to tenancies being recovered, the Corporate Anti-Fraud Team are also taking prosecution proceedings against six former tenants that have been found to have sublet and one Right To Buy applicant.
- 15. Housing Benefit Fraud Investigation**
- 15.1 During the fourth quarter, the HB Fraud team completed investigations on nine benefit fraud cases and submitted these for prosecution at crown court via Legal Services. Four cases submitted by the team to the DWP for joint prosecutions in 2011/12 are still to be heard. There are also three cases with outstanding Bench Warrants which the team chase up on a regular basis. The



## **Haringey Council**

team has an annual target of 30 prosecution cases for 2012/13, and this target was achieved.

15.2 In the fourth quarter, nine cases were heard at crown court and all prosecution cases found in favour of the Council. All cases identified that an overpayment had been fraudulently obtained by the claimants and one custodial sentence was handed down by the courts. The total overpayment identified for the 2012/13 cases was £747k, although only £67.2k has been recovered to date. Overpayment plans are in place to recover the remaining amounts and the team will be working with the HB recovery team and Legal Services going forward to ensure that all options for recovery are considered when fraud has been proven.

15.3 The Housing Benefit team has established an information sharing protocol and risk based process with the Housing Benefit processing and housing teams to review cases where Right to Buy applications have been submitted and the applicants have housing and council tax benefit claims in payment. As a result of the review processes, 15 applicants have withdrawn from the process, 26 benefit claims have been suspended, and a notice to quit has been issued in one case during 2012/13. The teams will continue to work together to ensure benefit and right to buy processes are applied correctly.

### **16. Council-wide disciplinary statistics**

16.1 Appendix C details the number of disciplinary suspensions and/or action taken in the fourth quarter of 2012/13. The data is taken from SAP and the information has been provided by the HR business unit in line with Council statistics reported elsewhere.

16.2 During the quarter, the number of disciplinary cases investigated was 34, with 19 remaining 'open' at the end of the quarter. The average length of time taken to resolve disciplinary cases in quarter four was 82 days, which is an increase on the previous quarter. Internal Audit has not completed any further verification on the information provided by HR for this appendix.

### **17. Consultants information**

17.1 Appendix D details the consultants employed by the Council during the fourth quarter. The data is taken from SAP and the information has been provided by the HR business unit. Internal Audit has not completed any further verification on the information provided by HR for this appendix.