



Report for:	Corporate Committee 29 September 2014	Item number	
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Title:	Internal Audit Progress Report – 2014/15 Quarter 1
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Report authorised by :	Assistant Director of Corporate Governance
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Ward(s) affected: ALL	Report for: Information
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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.
- 1.2 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 2013/14 annual audit plan, together with the responsive and pro-active fraud investigation work, including housing benefit fraud investigations. Where further action is required or recommended, this is highlighted in the report and appendices and appropriate recommendations for the Corporate Committee.

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; and the actions taken during the quarter to ensure audit recommendations are implemented and address the outstanding recommendations during the first quarter, 2014/15.

4. Other options considered



5. Background information

5.1 The internal audit 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 30 June 2014 and focuses on:

- Progress by Mazars 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; and
- Details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities.

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

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 Mazars 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.

6.2 The financial benefits to the Council of the work completed during 2014/15 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, mainly relating to additional costs for temporary accommodation.

6.3 Preventing fraudulent Right to Buy applications ensures that properties are retained within the social housing stock and discounts of up to £100k per property are not allocated to those who are not entitled to receive them.

7. Comments of the Assistant Director, Corporate Governance and Legal Implications

7.1 The Assistant Director, Corporate Governance has been consulted in the preparation of this report, and has no comments.

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 and reducing and preventing the opportunity for



fraud 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 – Mazars Progress report – Internal audit
 Appendix B – In-house Team – investigations into financial irregularities

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. 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	1 st Quarter	Year to date	Target
1	Internal Audit work (Mazars) – Days Completed vs. Planned programme	68%	17%	95%
2	Priority 1 recommendations implemented at follow up	100%	100%	95%
3	Benefit fraud cases completed and accepted for prosecution	6	6	20
4	Tenancy fraud – properties recovered	3 (plus 2 via RTB)	3 (plus 2 via RTB)	50
5	Right to Buy – fraudulent applications prevented	3	3	10

13. Internal Audit work – Mazars

13.1 The activity of Mazars for the first quarter of 2014/15 to date is detailed at Appendix A. Mazars planned to deliver 200 days of the 2013/14 annual audit plan (800 days) during the quarter and actually delivered 137 days audit work during the quarter. Completing the outstanding reviews from 2013/14 impacted on the number of days delivered on the 2014/15 plan, but the annual target is expected to be achieved. Ongoing monthly contract monitoring reviews ensure that performance levels are kept under review.



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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 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 to ensure that managers were taking appropriate action to address all outstanding recommendations. 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 outstanding follow up audits for 2012/13 work which have been undertaken is also included at Appendix A. We have followed up on 66 recommendations to date and found that 61 have been implemented; two are no longer applicable; two are in progress; and one has not been implemented. No Priority 1 recommendations remain outstanding. Overall, a compliance rate of 95% has been achieved for the quarter.

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 first quarter 2014/15 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 the team. During the first quarter, no staff-related whistle blowing referrals were made.

Within the first quarter, six new cases relating to permanent and temporary employees were referred to the Fraud Team. Two cases were completed during the quarter involving Council employees, with a further case concluded involving an agency member of staff where the case was proven and their contract was terminated. 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.

14.2 Tenancy Fraud – council properties

The Fraud Team works with Homes for Haringey and the Strategic and Community Housing Service to target and investigate housing and tenancy fraud. The Audit Commission estimate that each fraudulent tenancy costs councils an estimated £18k in temporary accommodation and other associated costs.



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As at 30 June, 40 new referrals of suspected tenancy fraud have been received by the team. The secondment agreements for both of the two temporary staff have been extended for a further six months to assist with the recovery of tenancies from these referrals and also to assist with investigations into potentially fraudulent Right to Buy applications. The secondments are being funded by the DCLG grant.

In addition to the two properties recovered in the first quarter, there are a further eight cases where there is an expectation of the return of keys to recover the properties, through Court Hearings, or the refusal of succession/ grant of tenancy applications. Table 2 below summarises the source of suspected fraud referrals and the outcomes achieved/cases closed in the first quarter:

Table 2

Brought forward from 2013/14		67
New Referrals received from:		
Tenancy Management Officer	30	
Fraudcall	7	
Joint investigation with HB Fraud	1	
Other LA	1	
Haringey Staff	1	40
Sub-Total		107
Outcomes 2014/15		
Properties Recovered	2	
Succession of Tenancy refused	0	
Total recovered/refused	2	
No Fraud identified	32	34
Ongoing Investigations c/f		73

14.3 Tenancy Fraud - Registered Provider properties

The section also works closely with the Council's key Registered Providers to target and investigate housing and tenancy fraud with their staff. As at 30 June 2014, 2 new referrals of suspected tenancy fraud have been received. Table 3 below summarises the source of suspected fraud referrals and the outcomes achieved/cases closed in the first quarter:

Table 3

Brought forward from 2013/14		51
Referrals received		2
Total		53
Outcomes 2014/15		
Properties Recovered	1	
Succession of Tenancy refused	0	
Total recovered/refused	1	
No Fraud identified	1	2
Ongoing Investigations c/f		51



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14.4 Right-to-buy (RTB) applications

The investigations into potential Right to Buy fraud remain ongoing. We currently have approximately 330 live cases where potential benefit or succession fraud is indicated. The team are currently receiving 6-8 new referrals each week and has identified that approximately 50% of cases are either potentially fraudulent, or applicants do not appreciate the potential impact on their existing benefits and we provide advice to tenants on this basis. In the first quarter, we successfully prevented 3 fraudulent RTB applications from progressing, and recovered two properties as a result of the Right to Buy work. This is in addition to the tenancy fraud work which recovered 2 properties. A further 41 applications are currently under investigation.

We are working with housing services, banks and financial institutions to identify potential fraudulent applications and work will continue during 2014/15.

14.5 Housing Benefit Fraud Investigation

During the first quarter, the Fraud team completed investigations on six benefit fraud cases and submitted these for prosecution at crown court via Legal Services. There are also five cases with outstanding warrants which the team chase up on a regular basis.

Two cases were successfully prosecuted in court. The total overpayment value of the cases completed to date is £308k, and £15k has been recovered, with most recovery processes instigated via ongoing benefit entitlement. The team has an annual target of 20 prosecution cases for 2014/15, and this target is expected to be achieved.

14.6 Tenancy fraud – key amnesty

We are planning a 'key amnesty' to encourage people who are illegally sub-letting council properties to return their keys, without facing prosecution for tenancy fraud. Publicity, including a poster campaign, advertising on bus routes, articles in the local media, Home Zone and Haringey People will be issued and regular information will also be issued via the Council's Twitter and Facebook accounts before and during the amnesty period. There will also be links on the Council and Homes for Haringey website pages on how to report suspected tenancy fraud and subletting. We have been working with Homes for Haringey, Customer Services and frontline managers to agree appropriate operational processes for returned keys and will be using existing reporting mechanisms (Fraudcall email and Freephone fraud reporting number) in the publicity.

We have also visited other London boroughs that have successfully run similar projects to learn from their approach, which resulted in between 6 and 14 properties being voluntarily returned, saving up to £250k in temporary accommodation costs. The costs of the project are estimated at £6-8k and this is being funded from the housing fraud grant from central government. The demand for social housing is increasing; therefore each property recovered from



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fraudulent use will benefit those genuine applicants on the waiting list and save the Council an average of £18k in temporary accommodation costs.

14.7 Procurement fraud – pro-active work

A pro-active project to provide assurance to the Programme Director for Tottenham that expenditure on the regeneration programmes is in accordance with relevant local and statutory requirements is being undertaken. Expenditure reports obtained by category management classification and sample reviews of organisations have started. The team is aiming to complete the work in quarter 2 with a report to the Programme Director.

14.8 Long Term Void Properties

An employee fraud investigation completed in the first quarter identified that the officer concerned had the ability to raise jobs and orders for work to be completed on properties, e.g. lock changes, and maintain control over when the property was made available for let. A pro-active project to review long term void properties, building on the work completed by the Corporate Delivery Unit has started and the team is aiming to complete the work in quarter 2.

14.9 Council Tax and NNDR fraud

A project to pro-actively investigate potential Council Tax and NNDR fraud including discounts and exemptions (SPD, empty buildings, Charity exemptions etc) has started in quarter 1. The project will link with and include the 2014 National Fraud Initiative SPD data matches which were made available to the Council in July 2014. Initial fieldwork has started and identified 14 cases out of an initial review of 60 cases where SPD should be removed. The Fraud Team are liaising with the Assistant Head of Service to ensure systems are updated, revised Council Tax invoices are issued and recovery action taken.

14.10 Counterfeit passport/ID card pro-active project

A pro-active project to review high risk benefit claims, including some reactive reviews from referrals received from Customer Services and Benefits Processing teams is being undertaken as part of the team's 2014/15 work plan. The fraud team is working directly with the police and immigration services to share knowledge and information and joint visits to potential fraudsters are being made. To date in 2014/15, six arrests have been made and the Crown Prosecution Service are waiting to receive evidence from French police authorities before progressing the cases in court.

14.11 National Fraud Initiative

The National Fraud Initiative (NFI) is a statutory biennial data matching exercise which is managed by the Audit Commission. Data from all local authorities and many other public sector organisations is matched to identify potential fraud. The resulting data matches are shared, via a secure website, with the Council to enable further investigations to take place.



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The next data matching exercise will take place in October 2014, with data submitted by the Council and the DWP (for benefits data). The potential data matches will be made available to the Council in February 2015.

The investigations into NFI potential data matches run alongside and support the fraud team's existing pro-active and reactive counter-fraud work programmes. The Fraud Team take the lead in managing and investigating the potential data matches returned from the Audit Commission. Further reports to the Corporate Committee will be made on the investigations into data matches during 2015/16.