



Report for:	Corporate Committee 27 November 2014	Item number	
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Title:	Internal Audit Progress Report – 2014/15 Quarter 2
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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 2014/15 annual audit plan, together with the responsive and pro-active fraud investigation work. 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 second 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 September 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, including the amnesty 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	2nd Quarter	Year to date	Target
1	Internal Audit work (Mazars) – Days Completed vs. Planned programme	97%	40%	95%
2	Priority 1 recommendations implemented at follow up	100%	100%	95%
3	Benefit fraud cases completed and accepted for prosecution	8	14	20
4	Tenancy fraud – properties recovered	4 (plus 2 via RTB)	7 (plus 2 via RTB)	50
5	Right to Buy – fraudulent applications prevented	64	67	10

13. Internal Audit work – Mazars

13.1 The activity of Mazars for the second quarter of 2014/15 to date is detailed at Appendix A. Mazars planned to deliver 212 days of the 2014/15 annual audit plan (850 days) during the quarter and actually delivered 207 days audit work during the quarter. A lower percentage of the annual audit plan was programmed for quarter two to take account of the summer holiday period, 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 follow up audits for 2013/14 work which have been undertaken to date is also included at Appendix A. We have followed up on 31 recommendations and found that 26 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 90% has been achieved for the quarter. We will continue to monitor all outstanding recommendations to ensure compliance.

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 second 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 second quarter, one staff-related whistle blowing referral was made.

Within the second quarter, ten new cases relating to permanent and temporary employees were referred to the Fraud Team. Eight cases were completed during the quarter involving Council employees. 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 September, 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

Carried forward 2013/14		67
Referrals received from:		
Tenancy Management Officer	41	
Fraudcall	19	
Public	4	
Joint investigation with HB Fraud	1	
Other LA	2	
Member	2	
Haringey Staff	2	
		71
Sub-Total		138
Outcomes 2014/15		
Properties Recovered	7	
Succession of Tenancy refused	5	
Total recovered/refused	12	
No Fraud identified	72	84
Ongoing Investigations c/f		54

Haringey Properties - 54 ongoing investigations

19 of the 54 cases (33%) are now showing the status "Unauthorised Accounts" on the Housing database. This represents those cases that have been investigated, tenancy fraud has been proven, with the consequence that the tenancy is terminated against the named tenant, to avoid rent payments being made and an implied tenancy being created; and are now pending either the:

- (i) Serving, or expiry of Notice to Quit,
- (ii) Court Hearing date,
- (iii) Eviction date, or
- (iv) Offer of smaller accommodation, in instances where a succession cannot be awarded to a property too large for the intended successor's needs.

These cases will be added to the 'properties recovered' numbers when keys are returned.



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Members previously asked for information about investigation times in respect of tenancy fraud cases. These will vary considerably depending on the nature of the referral and the willingness of the tenant, sub tenant, or succession applicant to engage in the process when fraud has been identified.

The Corporate Anti-Fraud Team (CAFT) has an internal target of 8 weeks from receipt of the initial information, to investigate a referral and make a recommendation to Homes for Haringey on the outcome of the investigation. In Quarters 1 and 2 of 2014/15, 55 cases were opened by CAFT and 29 were closed; with an average investigation time by CAFT of 6 weeks. This includes some cases where there was no fraud proven.

In cases where tenancy fraud is proven, following CAFT investigation, HfH will begin proceedings outlined above. However, the time taken to complete the process and recover the property will depend on a number of variables. The following are examples of closed and ongoing cases which demonstrate the issues in recovering properties which are identified as fraudulently sub-let or occupied:

- (i) CAFT received a referral on 12 August 2014 about a potential sub-let in a Council tenancy. Following an investigation the sub tenants vacated and the tenant signed a Tenancy Termination Form and returned the keys on 12 September 2014.
- (ii) CAFT received a referral of alleged subletting on 17 August 2011 at a Council property; which subsequently extended to three Council properties and one in the ownership of a Registered Provider in the Borough. The investigation included identifying Housing Benefit fraud against 4 separate properties, for which a joint investigation with the DWP is ongoing. The investigation also identified fraud against the Council in regard to Blue Badge use and CAFT were also able to prevent an offer of Sheltered Housing being made to a family member. The case is subject to prosecution with the aim of recovering three properties, and the prosecution of 4 members of one family for tenancy fraud, recovery of overpaid Housing Benefit, and proceeds of crime. To 30 September 2014 this case has been 'open' for 783 days
- (iii) CAFT received a succession claim for further investigation on 6 October 2014. Following initial investigation, on 9 October 2014, the succession claimant agreed to relinquish a 4 bed house and accept an offer of a 1 bedroom flat.
- (iv) A succession case was referred to CAFT on 19 September 2012. There is no right to succeed as there has already been one succession (from the former tenant to his wife upon his death) at this property. The CAFT investigation has concluded that the succession applicants have no right to succeed, but also they have failed to establish residency at the property. The applicants have taken their case to the Local Government Ombudsman and additionally took out legal proceedings, which were heard in Court on 6 November 2014, with a judgement in favour of the Council granting a possession order for the property and the Council will follow standard



processes to obtain a warrant to execute the possession order. The applicants also submitted judicial review proceedings on 4 November 2014, which will be considered by the High Court in due course. The Council considers that the judicial review has been submitted out of time, but the process still has to be followed. To 30 September 2014, this case has been 'open' for 386 days.

- (v) In some cases the identified fraud may be perpetrated simultaneously in another local authority. In these cases a joint investigation will be carried out and a decision will be taken as to who will 'lead' the investigation. In one such case, Haringey have been working with a local authority in Essex, who took the lead as the case involved an employee of their Council. The case was initially identified through National Fraud Initiative on 23 June 2011 and was heard in Court, in Essex, on 13 October 2014.

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 September 2014, 14 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

Carried forward 2013/14		51
Referrals received		14
Total		65
Outcomes 2014/15		
Properties Recovered	2	
Succession of Tenancy refused	0	
Total recovered/refused	2	
No Fraud identified	2	4
Ongoing Investigations c/f		61

14.4 Right-to-buy (RTB) applications

To date, 282 applications have been referred to the Fraud Team in 2014/15. The team reviews every RTB application to ensure that any property where potential benefit or succession fraud is indicated can be investigated further. In 2014/15 to date, the team has cleared/allowed to progress 85 applications; 64 applications have been withdrawn following the applicants' interview with the Fraud Team and/or the requirement to complete money laundering processes; 21 applications are currently under investigation; 69 are awaiting return of further information from the applicant or other organisations; and 43 applications are considered to be fraudulent and are being progressed with the individual applicants.

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



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14.5 Housing Benefit Fraud Investigation

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

Seven cases were successfully prosecuted in court. The total overpayment value of the cases concluded 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

The tenancy fraud amnesty went live on 14 October 2014. There are news and information articles on the Council and HfH websites and there will be further articles in Haringey People Extra and on social media. We will be continuing to work with customer services and frontline managers to manage any keys returned and have reporting processes in place to capture the numbers involved. The amnesty is due to run to 20 December.