



Report for:	Corporate Committee 22 June 2015	Item number	
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Title:	Internal Audit Progress Report – 2014/15 Quarter 4
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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 fourth quarter, 2014/15.

4. Other options considered



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4.1 Not applicable.

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 31 March 2015 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 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.

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 of Corporate Governance has been consulted in the preparation of this report, and advises that there are no direct legal implications arising from 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 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	4 th Quarter	Year to date	Target
1	Internal Audit work (Mazars) – Days Completed vs. Planned programme	95%	92%	95%
2	Priority 1 recommendations implemented at follow up	100%	100%	95%
3	Benefit fraud cases completed and accepted for prosecution	6	30	20
4	Tenancy fraud – properties recovered	12 (plus 2 via RTB)	39 (plus 2 via RTB)	50
5	Right to Buy – fraudulent applications prevented	29	118	10

13. Internal Audit work – Mazars

13.1 The activity of Mazars for the fourth quarter of 2014/15 to date is detailed at Appendix A. Mazars planned to deliver 190 days of the 2014/15 annual audit plan (800 days) during the quarter and actually delivered 180 days audit work during the quarter. Overall, the delivery was slightly below the target, but had exceeded the target by 30 April 2015. 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 57 recommendations and found that 42 have been implemented; two are no longer applicable; eight are in progress; and five have not been implemented. No Priority 1 recommendations remain outstanding. Overall, a compliance rate of 77% 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 fourth 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 Fraud Team. During the fourth quarter, one staff-related whistle blowing referral was made. This was not fraud-related and was referred to the Assistant Director of HR for their review.

Within the fourth quarter, three new cases relating to permanent and temporary employees were referred to the Fraud Team. Two 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 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 31 March, 132 new referrals of suspected tenancy fraud have been received by the team. The secondment agreements for the two temporary staff, funded by the DCLG grant, will end on 8 June 2015 and discussions are ongoing with Homes for Haringey to determine the most cost effective means of continuing the tenancy fraud work in 2015/16.

Table 2 Tenancy Fraud

Carried forward 2013/14		67
Referrals received from:		
Tenancy Management Officer	86	
Fraudcall	28	
Tenancy amnesty	1	
Public	6	
Joint investigation with HB Fraud	1	
Other LA	4	
Member	2	
Haringey Staff	4	
		132
Sub-Total		199
Outcomes 2014/15		
Properties Recovered	22	
Succession of Tenancy refused	11	
Tenancy amnesty	6*	
Total recovered/refused	39	
No Fraud identified	99	138
Ongoing Investigations c/f		61

Haringey Properties - 61 ongoing investigations

17 of the 61 ongoing cases (28%) are showing the status 'Unauthorised Account' on the Housing database. This represents those cases where the Fraud Team has investigated and 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. Either a notice to quit (NTQ), court hearing, eviction date, or offer of a smaller property is in progress for these 17 properties. These cases will be added to the 'properties recovered' numbers when keys are returned.

In addition to the above cases where properties have been recovered, one investigation was undertaken on a housing application which was referred to the Fraud Team. The application was proved to be fraudulent, therefore preventing a Council tenancy from being offered.

Tenancy fraud amnesty (update)*

The tenancy fraud amnesty ran from 14 October to 20 December 2014 and resulted in six properties being recovered, all of which were (or are being) re-let. A subsequent review by the Fraud Team of all tenancies terminated during the



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amnesty period identified a further **19** properties where the keys were returned and the reason for termination could not be established. Enquiries with Tenancy Management Officers confirmed that there was no indication from the tenant prior to the amnesty period that they wished to return the keys to the property. We have not included these properties in the total recovered as a result of our pro-active counter-fraud work as the reason for the hand back cannot be confirmed.

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 31 March 2014, 15 new referrals of suspected tenancy fraud have been received during the year. Table 3 below summarises the source of suspected fraud referrals and the outcomes achieved/cases closed in the third quarter:

Table 3

Carried forward 2013/14		51
Referrals received		15
Total		66
Outcomes 2014/15		
Properties Recovered	4	
Succession of Tenancy refused	0	
Total recovered/refused	4	
No Fraud identified	2	6
Ongoing Investigations c/f		60

14.4 Right-to-buy (RTB) applications

To date, over 300 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, 134 applications have been cleared for progression; 118 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; and 256 applications are currently under investigation. Included in the 118 withdrawn and refused applications are two properties which were subsequently recovered when it was identified that the registered tenants were not using the property as their main home. Overall, the 118 cases represents £11.8m in RTB discounts and means the properties are retained for social housing use.

We are working with housing services, banks and financial institutions to identify potential fraudulent applications and work will continue during 2015/16.

14.5 Housing Benefit Fraud Investigation



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During the fourth quarter, the Fraud team completed investigations on six 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.

Five cases were successfully prosecuted in court. The total overpayment value of the cases concluded is £452k, and £31k 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 has been achieved.

Housing Benefit investigations will transfer to the Department for Work and Pension's (DWP) Single Fraud Investigation Service (SFIS) on 1 August 2015. The Fraud Team are currently prioritising investigations into those benefit matches which have potential links to other frauds e.g. tenancy, right to buy. Any outstanding NFI cases which have not been investigated will be transferred to SFIS on 1 August 2015. The DWP have been advised of this and have agreed the position.

14.6 National Fraud Initiative (NFI) 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.

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 is detailed in Table 4 below.



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Table 4 – 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
Housing Benefits	7,583	2,478	493	118
Payroll	164	62	21	0
Pensions	204	62	87	0
Housing Tenants	340	142	96	28
Right to Buy	384	286	64	9
Insurance claimants	59	7	3	0
Blue badge permits	417	397	0	0
Personal Budgets	278	110	0	0