

**Report for:** Corporate Committee – 26 November 2015

**Item number:**

**Title:** Internal Audit Progress Report 2015/16 – Quarter 2

**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 30 September 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, 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	2 <sup>nd</sup> Quarter	Year to date	Target
1	Internal Audit work (Mazars) – Days Completed vs. Planned programme	98%	20%	95%
2	Priority 1 recommendations implemented at follow up	N/A	N/A*	95%
4	Tenancy fraud – properties recovered	10	17	40
5	Right to Buy – fraudulent applications prevented	15	49	80

\* Follow up programme will commence 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 100 days of the annual audit plan (788 days) during the quarter and actually delivered 98 days audit work during the quarter. Although the overall completion rate of the plan is below expected at this stage of the year, this position is expected to improve as the majority of the work was planned to take place in quarters 3 and 4. 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 plan to start 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 second quarter 2015/16 relating to Council employees.

Within the second quarter, three new cases relating to permanent and temporary employees were referred to the Fraud Team. Four cases were completed during the quarter involving permanent Council employees. In all cases closed in Quarter 2, 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 second quarter, three whistle blowing referrals were made, two of which were anonymous. Two referrals related to non-financial issues and were referred to the relevant Assistant Directors and HR for their investigation. One investigation was referred to the Fraud Team by a union official in respect of an allegation of irregular recruitment practices. The Fraud Team completed an investigation and no evidence was found to substantiate the allegation; details of the investigation and the outcomes were provided to the union official in accordance with the Council's policy.

#### 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		<b>61</b>
2014/15 cases not previously included		<b>31</b>
Tenancy Management Officer	<b>33</b>	
Fraudcall	<b>8</b>	
Public	<b>1</b>	
Other LA	<b>1</b>	
Other Haringey Service	<b>10</b>	
Total referrals received in 2015/16 to date		<b>53</b>
<b>Total referrals received for investigation</b>		<b>145</b>

##### **2015/16 Outcomes**

<b>Properties Recovered</b>	<b>17</b>	
No Fraud identified	<b>40</b>	
Total cases investigated		<b>57</b>
Ongoing Investigations		<b>88*</b>
<b>*See Note 1 below</b>		

**Note 1:** Of the 88 ongoing investigations; **22** of these cases (25%) are with Legal Services and progressing towards tenancy recovery. 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.

##### **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, 17 properties have been recovered through the actions and investigations of the Fraud Team; therefore a total value of **£306k** can be attributed to the recovery, or cessation, of fraudulent tenancies.

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 31 December 2015. 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 100 applications have been referred to the Fraud Team in 2015/16; and the team currently has approximately 255 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, **49** 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 255 applications are currently under investigation.

Overall, the 49 cases represents over **£4.9m** in RTB discounts and means the properties are retained for social housing use.

In Quarter 2, the Fraud Team signed an Information Sharing Agreement (ISA) with a national fraud prevention agency which is supported by all banks and other financial institutions. The ISA will enable the Team to provide intelligence reports to the agency in order to identify and prevent potential fraud.

The Fraud Team were also invited to present details of our approach to preventing Right to Buy fraud at the Council of Mortgage Lenders annual conference. Feedback from the conference has been very positive, with the Team gaining additional contacts from organisations' fraud teams to assist with future cases.

#### **14.5 Single Fraud Investigation Service (SFIS) update**

Housing Benefit investigations transferred to the DWP's Single Fraud Investigation Service (SFIS) on 1 August 2015. A final total of 26 cases which only related to benefit fraud were transferred to SFIS. The HB Processing Team act as the single point of

contact for any referrals to/from the DWP; and the Fraud Team liaise regularly with the Processing Team to review any potential fraud cases that may have wider tenancy, or RTB implications.

The Fraud Team are liaising with the local DWP SFIS team on a regular basis and any cases which have links to other frauds e.g. tenancy, right to buy would be pursued as a joint investigation. There have been no new joint investigation cases started since 1 August 2015.

#### **14.6 Fraud/Data Sharing Hubs**

The Fraud Team are one of a small group of London authorities assisting the Chartered Institute of Public Finance and Accountancy (CIPFA) with the development of their data sharing information hub. The intention is to develop the information hub to support counter-fraud data matching processes for all local authorities across the country and to provide a 'real time' approach to data matching and opportunities for local authorities to undertake targeted counter-fraud data searches. The work has started in Quarter 2, with the expectation that the data sharing platform will be operational in 2016/17.

The Fraud Team have also signed the data sharing agreement with the Call Credit fraud hub to enable the Council's housing waiting list and tenancy data to be cross matched with 15 other London authorities. The tenancy review information, which matches our tenants' information with Call Credit's financial credit check information and highlights potential duplicate tenancies, or those with a high likelihood of sub-letting, should be returned during November for review by the Fraud Team.

We have also requested Call Credit to review the potential to data match our own internal data sets, at no costs, while we develop our existing fraud database with Civica. This work will be developed during November and December.