

**Report for:** Corporate Committee – 28 June 2016

**Item number:** 7

**Title:** Internal Audit Progress Report 2015/16 – Quarter 4

**Report authorised by :** Assistant Director of Corporate Governance

**Lead Officer:** Anne Woods, Head of Audit and Risk Management  
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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 31 March 2016 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
  - 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**

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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 2018, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget. The maintenance of a strong internal audit function and a proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

### 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

There are no direct equality implications for the Council's existing policies, priorities and strategies. However, ensuring that the Council has effective governance arrangements in place and takes appropriate action to improve these where required will assist the Council to use its available resources more effectively.

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	4 <sup>th</sup> Quarter	Year to date	Target
1	Internal Audit work (Mazars) – Days Completed vs. Planned programme	100%	87%	95%
2	Priority 1 recommendations implemented at follow up	100%	100%	95%
4	Tenancy fraud – properties recovered	13	40	40
5	Right to Buy – fraudulent applications prevented	74	149	80

### 13. Internal Audit work – Mazars

- 13.1 The activity of Mazars for the fourth quarter of 2015/16 is detailed at Appendix A. Mazars planned to deliver 200 days of the annual audit plan (691 days) during the quarter and actually delivered 223 days audit work during the quarter. Although the overall completion rate of the plan, to final report stage, is below expected no issues have been identified to prevent completion of the plan as most of the reports outstanding have been issued in draft. 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.

### 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 2015/16 relating to Council employees.

Within the fourth quarter, six new cases relating to permanent and temporary employees were referred to the Fraud Team. Four cases were completed during the quarter: evidence was found to substantiate the allegations made in two cases relating to agency employees, who were both dismissed, no evidence was found to substantiate the allegations in other cases closed 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. Seven whistle blowing referrals were made during Quarter 4, five of which were anonymous, making a total of 24 referrals in 2015/16.

Three referrals related to non-financial issues and were referred to the relevant Assistant Directors and HR for their investigation. Four referrals related to both financial and non-financial issues and these were investigated by HR and the Fraud Team; no evidence was found to substantiate the allegations in two cases. Two investigations are ongoing.

## 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		61
2014/15 cases not previously included		31
Tenancy Management Officer	91	
Fraudcall (freephone and email)	16	
Pro-active exercises	8	
Public	1	
Other LA	1	
Other Haringey Service	15	
Total referrals received in 2015/16		132
<b>Total referrals received for investigation</b>		<b>224</b>

### **2015/16 Outcomes**

<b>Properties Recovered</b>	<b>40</b>	
No Fraud identified	96	
Total cases concluded		136
<b>Ongoing Investigations</b>		<b>88*</b>

**\*See Note 1 below**

**Note 1:** Of the 88 ongoing investigations; 28 of these cases (32%) are where tenancy fraud has been identified and court proceedings were in progress as at 31 March 2016. This gives a total of 68 properties where tenancy fraud has been proven for 2015/16. 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. For the ongoing investigations where tenancy recovery is in progress; the status of the tenancy has been investigated and the case is either awaiting a Court Hearing, the Particulars of Claim are with Legal Services, an NTQ is awaiting expiry, a succession application has been refused and the tenant is awaiting an offer of smaller accommodation, or the rent account is showing an 'Unauthorised Account' on the Housing database.

### **Financial Values 2015/16**

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, 40 properties have been recovered through the actions and investigations of the Fraud Team; therefore **a total value of £720k** can be attributed to the recovery, or cessation, of fraudulent tenancies. If all remaining investigations are concluded and 68 properties are recovered, the total financial value of the tenancy fraud work would exceed **£1.2 million** for the 2015/16 financial year.

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 March 2017, with the Fraud Team part funding the secondment in 2016/17.

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 2016/17.

#### **14.4 Right-to-buy (RTB) applications**

Over 200 applications have been referred to the Fraud Team in 2015/16; and the team currently has approximately 305 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, 149 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.

Overall, the 149 cases represent **over £15.3m** in RTB discounts and means the properties are retained for social housing use.