

Annual Report on Internal Audit Activity 2015/16

1. Role of Internal Audit

- 1.1 The requirement for an internal audit function is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must: *'Undertake and effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'*
The standards in relation to internal audit are contained in the mandatory 2013 UK Public Sector Internal Audit Standards (PSIAS).
- 1.2 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The 2015 Regulations require the Council to review, at least annually, the effectiveness of its system of internal control. Internal audit plays an important role in advising the Council that these arrangements are in place and operating effectively. The Council's response to internal audit activity should strengthen the control environment and ultimately contribute to achieving the organisation's objectives.
- 1.3 Internal Audit services for Haringey Council, excluding the investigation of allegations of fraud and corruption, are provided by Mazars Public Sector Internal Audit Ltd (Mazars) as part of the framework contract awarded to the London Borough of Croydon and extended to 31 March 2018, in accordance with EU regulations.

2. Internal Audit Approach

- 2.1 To assist the Council in meeting the relevant audit standards and achieving its objectives, internal audit provide a combination of assurance and advisory activities. Assurance work involves assessing how well the systems and processes are designed and working; advisory activities are available to help improve systems and processes where required.
- 2.2 A full range of internal audit services has been provided in forming the annual opinion. The approach to each audit review is determined by the Head of Audit and Risk Management, in discussion with Mazars and service management and will depend on: the level of assurance required; significance of the area under review; and risks identified.
- 2.3 A report is issued for every project in the annual audit plan which provides an overall audit opinion according to the seriousness of the findings. In addition, each recommendation is given a priority rating, to assist service management in prioritising their work to address agreed recommendations. The overall classification relates to the findings at the time of the audit work.

3. Internal Audit Opinion

- 3.1 The Head of Audit and Risk Management is responsible for delivering an annual audit opinion and report that can be used by the Council to help inform its Annual Governance Statement. The annual audit opinion should provide a

conclusion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

3.2 Internal audit work, using a risk based approach, included reviews of those systems, projects, and establishments to discharge the Chief Financial Officer's responsibilities under s151 of the Local Government Act 1972; the 2013 UK Public Sector Internal Audit Standards; and the 2015 Accounts and Audit (England) Regulations.

3.3 In providing the annual audit opinion reasonable, but not absolute, assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance given, I have taken account of:

- Reports on all internal audit work completed during 2015/16, including any advisory work and briefings to management;
- Results of follow up exercises undertaken;
- Any reviews completed by external review bodies;
- The resources available to deliver the internal audit plan; and
- The compliance with PSIAS of Mazars.

3.4 **Audit Opinion 2015/16:**

I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Council's internal control environment.

I have considered the work completed by Mazars and the in-house counter-fraud investigation staff for 2015/16. This includes reviews of internal audit reports, fraud investigations and briefings to management. In my opinion, with the exception of those areas where 'limited' assurance reports have been issued, the controls in place in those areas reviewed are adequate and effective. Where weaknesses in controls have been identified, internal audit has worked with management to agree appropriate actions and timescales for implementation. Internal Audit will undertake follow up reviews to confirm their implementation.

In my opinion, the Council's framework of governance, risk management and management control is adequate and audit work has found controls to be generally effective.

4. Internal Audit Coverage and Output

4.1 The 2015/16 audit plan was informed by internal audit's own assessment of the Council's key risk areas and discussions with senior management to ensure that audit resources were aligned to agreed areas of risk. A level of contingency was included in the audit plan to ensure that any emerging risks during the year could be adequately reviewed. Work has been planned and performed in order to obtain reasonable assurance that the internal control system is operating effectively.

4.2 For 2015/16 a total of 71 projects, including schools audits, formed the annual audit plan which was approved by the Corporate Committee on 26 March 2015. Resources to complete follow up work are also included in the annual audit

plan, including formal follow up reports for schools. The results of the follow up reviews were reported to the Corporate Committee throughout 2015/16. In addition, requests for additional audit work were made during the year and a further 3 system checks, including sample testing (rather than full audits) were completed.

4.3 The 2015/16 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and a draft report and an indicative opinion has been formed for 15 reviews, however final reports were not issued by 31 March 2016;
- Fieldwork was in progress for 11 reviews at 31 March 2016. Reports have subsequently been issued for these reviews.
- Two projects relating to adults and children’s residential care placements were replaced with a single project reviewing the newly created brokerage service which manages the procurement of places;
- Two projects (20 days) were cancelled as a result of changes to how services were delivered during 2015/16. These areas will be included for review during 2016/17, covering their new management arrangements.

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for 2015/16.

4.4 Including follow up work and resources to support work which did not result in a formal report, Mazars delivered 87% of the planned audit programme to final report stage by 31 March 2016. This is lower than the agreed performance indicator which specifies a 95% completion rate. However, the majority of the fieldwork required had been completed and final reports are due to be issued within the first quarter of 2016/17.

4.5 The following table indicates the audits completed and relevant levels of assurance during 2015/16. Eleven audits reports were still to be issued in draft at 31 March 2016, however indicative assurance levels have been reported where available.

Assurance Level	Number of Reports Issued
Full Assurance	5
Substantial Assurance	24
Limited Assurance	5
No Assurance	0
Advisory report	13
Total	47

Assurance Definition:

Full Assurance: There is a sound system of control designed to achieve the system objectives.

Substantial Assurance: There is basically a sound system, but there are weaknesses which put some of the system objectives at risk.

Limited Assurance: Weaknesses in the system of controls are such as to put the system objectives at risk.

No Assurance: Control is generally weak leaving the system open to significant error or abuse.

4.6 This level of audit coverage is satisfactory and complies with the mandatory 2013 UK Public Sector Internal Audit Standards (PSIAS).

5. Significant Issues Arising

5.1 During 2015/16, it was reported that a significant number of high priority (Priority 1) recommendations relating to schools' audits remained outstanding when the follow up audit was undertaken: 28 out of 58 Priority 1 recommendations remained outstanding.

5.2 As a result, a more robust escalation process was proposed by the Children's Service and approved by the Corporate Committee in November 2015. All schools with outstanding recommendations will be visited again in 2016/17 to ensure implementation. The agreed escalation process will be used in 2016/17 where schools have not implemented recommendations. This has been identified in the Council's AGS as part of the Head of Audit and Risk Management's comments on 2015/16.

6. Counter-fraud work 2015/16

6.1 Haringey Council is committed to ensuring the highest possible standards are maintained by its staff, contractors and residents. Fraud and corruption can impact on the public's confidence in the Council and its reputation in the long term. Counter-fraud policies and strategies are in place to detect and prevent fraud and a corporate Fraud Team is managed by the Head of Audit and Risk Management.

6.2 In accordance with Part 2 of the Local Government Transparency Code 2014, details of the Fraud Team's involvement in counter-fraud work is summarised below:

Transparency Code requirement	2015/16
Allocated budget for counter-fraud work	£650k
Number of staff (absolute and FTE) undertaking counter-fraud work	9 staff: 8.5 FTE
Number of staff of professionally accredited counter-fraud specialists	8 staff
Total amount of time spent on the investigation and prosecution of fraud	1,853 days
Total number of fraud cases investigated	1,444
Number of occasions powers under the Prevention of Social Housing Fraud Regulations have been used	46

6.3A breakdown of the fraud cases investigated is summarised below:

Investigation area	Number of investigations
Housing benefits*	30
Right to Buy applications	305
Tenancy fraud	136
Employee fraud cases	15
Council Tax – single person discount	718
Blue Badge fraud	240
Total	1,444

*Responsibility for Housing Benefit fraud investigations transferred to the Department for Work and Pensions on 1 August 2015.

- 6.4 **Counter-fraud outcomes.** In 2015/16, the target for the counter-fraud work was to contribute a minimum of £10m worth of savings, or avoided expenditure, to assist the Council in improving its frontline services. The Fraud Team exceeded this target by over £6m by achieving the following outcomes:

Counter-fraud Activity	Number	Unit value £000s	Total £000s
Council Tenancies recovered	40	18*	720
Successful prosecutions completed	5	N/A	68
Right to Buy investigations	149	103**	15,347
Total			16,135

* Cabinet Office unit value of average Temporary Accommodation costs

** RTB Actual discount value

- 6.5 **Internal Investigations.** During 2015/16, 15 investigations were completed involving council employees. The allegations covered a number of issues including misuse of blue badges, bribery offences, fraudulent housing application and benefit fraud; the number of investigations completed by service area is shown below. The number of investigations in total is consistent with previous years' work.

Investigations by service area

Service area	Investigations 2015/16
Children and young People's Service	4
Chief Operating Officer	7
Adult Social Services	3
Planning, Regeneration and Development	1
Total	15

- 6.6 **Whistleblowing referrals.** The Head of Audit and Risk Management maintains the central record of referrals made using the Council's whistleblowing policy. In total, 24 whistle blowing referrals were made during 2015/16, 19 of which were anonymous.

The Head of Audit provided a briefing and presentation to all senior managers, and publicity via the staff newsletter, on the Council's whistleblowing policy and how to use it during 2015/16. Regular reminders regarding expected standards of behaviour and how to report suspected fraud are provided via staff newsletters, the Council's intranet and website and via Haringey People and Home Zone publications.

All referrals are reviewed and subsequent investigations are managed according to all relevant statutory requirements, including Data Protection, Regulation of Investigatory Powers and Police and Criminal Evidence Acts. In 2015/16, three referrals did not relate to Council staff and were referred to the relevant contractor for their review; 16 cases were closed either due to lack of information or evidence; five cases remain ongoing at the year end.

6.7 **Tenancy Fraud.** 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 (free phone and email)	16	
Pro-active exercises	8	
Public	1	
Other LA	1	
Other Haringey Service	15	
Total referrals received in 2015/16		132
Total referrals received for investigation		224

2015/16 Outcomes

Properties Recovered	40	
No Fraud identified	96	
Total cases concluded		136
Ongoing Investigations		88*

***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.

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.

- 6.8 **Right-to-buy (RTB) fraud.** Over 200 Right to Buy 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.

- 6.9 **National Fraud Initiative (NFI).** The 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 and the Fraud Team completed their investigations by 31 December 2015. Some investigations remained open after this date as court proceedings and recovery processes continued.

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 focused 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 and investigations completed, together with the number of fraud/errors identified is detailed below.

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	Number of frauds/errors identified
Housing Benefits	8,522	2,799	865	0	6
Payroll	167	64	41	16	0
Pensions	204	62	87	0	0
Housing Tenants	494	141	227	11	1
Right to Buy	386	284	274	2	0
Insurance claimants	58	7	5	0	0
Blue badge permits	417	398	398	0	0
Personal Budgets	278	110	278	0	61
Private Residential Care Homes	26	13	26	0	9
Total	10,552	3,878	2,201	29	77

Summary details where fraud/errors were identified

A total of 77 cases of fraud or error, with a total value of £179.9k, were identified as a result of investigations into 2,101 data matches (3.6%). The Fraud Team undertook the investigations into data matches on a risk basis, and aligned the investigations with existing pro-active work programmes wherever possible to utilise resources effectively. Details of the outcomes where fraud and/or errors were identified are summarised below.

a) Housing Benefits:

Six frauds/errors were identified, with a total value of £136.4k. All overpayments are in the process of being recovered, some via ongoing entitlement. Two members of staff were included in the overpayments identified; they had not declared changes in circumstances e.g. changes in hours worked, increases in salary, resulting in overpayments of £3k and £6k. Disciplinary action was taken in accordance with the Council's Code of Conduct; benefit claims have been reassessed and repayment plans have been put in place. One benefit claimant did not have access to public funds resulting in an overpayment of £44k; the benefit claim was cancelled and recovery is being sought. All future NFI fraud investigations relating to Housing Benefits should be undertaken by the DWP's Single Fraud Investigation Service (SFIS).

b) Housing Tenants:

One error was identified relating to the incorrect recording of an individual's National Insurance number. The database was corrected; no financial error or fraud was identified.

c) Personal Budgets:

Sixty one errors were identified, all relating to different recording of address information, or incorrectly omitting the benefit details on the system which triggered the error report. No financial issues, frauds, or errors were identified by the data set matches.

d) Private Residential Care Homes:

Nine errors identified relating to the date of death for the client and subsequent overpayments to care home providers. The total of £43.5k was reclaimed from providers either by invoice, where the individual was the only client, or by recovery from subsequent payments to the care home where the Council has more than one service user resident in the care home.

7. Looking Forward

- 7.1 The internal audit and counter-fraud services aim to remain responsive to the needs of the Council; providing high quality services which comply with all relevant local and statutory requirements.
- 7.2 In order to provide assurance to managers, the internal audit plan for 2015/16 focused on the key priority risk areas. As the Priority Boards develop and delivery of the Corporate Plan progresses, internal audit will align its service to the risks highlighted by service managers, project managers and Priority Owners. Internal audit will also work with managers to pro-actively to test key controls on a regular basis in key risk areas e.g. payroll and accounts payable. This will provide regular ongoing assurance to managers throughout the year, rather than just at the year end; will also assist in preventing and avoiding losses and fraud; and assist in putting suitable controls in place where appropriate.
- 7.3 The Fraud Team's work in 2015/16 focused on key fraud risk areas, notably tenancy fraud and Right to Buy fraud, with outcomes achieved reflecting a good return on the resources deployed. A substantial amount of the Fraud Team's resources in 2015/16 were taken up investigating potential data matches provided by the National Fraud Initiative (NFI); the outcomes of these investigations did not identify any significant frauds in 2015/16. The next NFI data matching exercise will commence in 2016/17 and the Fraud Team will prioritise those potential data matches which align with the Council's key risk areas in the first instance.