



Brent

Audit Committee
8 January 2014

**Report from the
Chief Finance Officer**

For Information

Wards Affected:
ALL

Internal Audit Progress Report 2013/14

1. Summary

- 1.1. This report presents a summary of the work of Internal Audit and the Investigations Team from 1st April 2013 to 30th November 2013. The appendix provides further details of audit reports issued.

2. Recommendations

- 2.1. That the Audit Committee notes the progress made in achieving the 2013/14 Internal Audit Plan and the review of fraud work.

3. Detail

Internal Audit - Progress

- 3.1. The Internal Audit Plan for 2013/14¹ comprises 1,248 days, including 48 days brought forward from the previous year which were not delivered. The majority, 953 days, of the plan is delivered through Deloitte Touche Public Sector Internal Audit Limited called off from a framework contract procured by Croydon Council. A small in-house team deliver a further 295 days.
- 3.2. As at 30th November 2013 a total of 663 (53%) days have been delivered against the plan. At a similar point last year some 63% had been delivered and the majority of the key financial systems audit work was already in progress during quarter 3.

Plans are in place to deliver additional days within the remainder of quarter 3 and quarter 4, particularly in relation to post migration audit work around the key financial systems (Accounts Payable; Accounts Receivable; General Ledger and Payroll) and in the area of public health.

3.3. The Head of Audit & Investigations alerted members to the slow progress being made against the plan at the Audit Committee meeting in September 2013². The cause of the slow start was due to projects being deferred by management, partly caused by preparations for the move to the civic centre and structural changes across the council which changed responsibility for systems. Some projects could not be delivered due to anticipated system/policy changes and some were identified as no longer relevant. Although the internal audit contractor is relatively flexible and able to respond, to some degree to peaks and troughs in workload, these delays place additional pressure on the team as increased resources have to be applied by in quarters three and four to ensure the plan is delivered. In addition to delays in commencing audits, it is apparent that audit field work and clearance of draft reports is taking longer due to staff leaving the organisation. The original audit plan, agreed by the Audit Committee in March 2013 has been subject to amendment due to the changes referred to above. Where projects are removed or deferred, the consequent available resource is allocated to new projects. The key changes to the plan are set out below:

- Key Financial Systems – Additional 20 days added to plan for testing both pre and post migration transactions on Oracle (accounts payable, receivable, general ledger and payroll)
- Sexual Health Contracts - 10 day audit removed and to be covered as part of Public Health Grants to Voluntary Organisations.
- Placements – 25 day audit added to at the request of management
- Brent Foster Carers – 12 day audit added to plan at the request of management
- Kingsbury Resource Centre – 10 day audit added to plan at the request of management
- Private Nurseries – 20 day audit added to plan as a result of two fraud enquiries

- Highways Maintenance - Deferred by Audit and Investigation due to other projects being required
- Vale Farm Contract – Removed from plan as contract re-let in November 2013 and Ealing Council will be responsible for contract management.
- Procurement – Audit deferred due to delays in the implementation of One Oracle Category Management.
- Ward Working - 15 days replaced by an audit of Grants to Voluntary Organisations due to issues highlighted as a result of another audit.

3.4. The original audit plan contained 75 projects with an identifiable deliverable. Changes in year have resulted in the number of deliverables increasing to 81. To date, 28 draft and final reports have been issued, representing 35% of the total. Resources are available within the internal audit contractor to recover the position by year end. However, successful delivery assumes that auditees are able to respond to requests for information within appropriate timescales. The status of original and revised projects on the current plan is set out in table 1 below:

Audit	Days in the plan	Revised Days	Total days delivered	Progress	Assurance Opinion/ Direction of Travel	Recommendations made			Issue Date
						1	2	3	
CROSS COUNCIL / CORPORATE AUDIT									
Disclosure & Barring (formerly CRB checks)	20	25	25	Draft Report to be Issued					
Sickness & Absence Management	20	20	18	WIP					
Business Continuity Planning & Emergency Planning	10	10	10	Final Report	Limited (Improved)	1	4	2	12/09/2013
GPC Cards	20	0	0	Withdrawn by A&I due to in depth cross council testing and system recommendations by investigation team following fraud enquiry					
Corporate Income Collection Arrangement (Original focus was cemeteries and mortuary income)	10	10	0	Due in Q1 but postponed to Q4 due to change in focus of audit following change in responsibility for area and corporate arrangements now in place at the Civic Centre					
Payments to Public Health Contracts (Transfer of responsibilities from PCT to Council)	10	10	1	Due in Q1 but systems not operational. Postponed to Q4.					
Public Health	25	25	1	Due in Q1 but systems not operational. Postponed to Q4.					

Contract Management									
CROSS COUNCIL / CORPORATE Total	115	100	55						
FINANCE									
Accounts Payable	15	15	0	This is post migration work and due for Q4 depending on go live					
Accounts Receivable	15	15	0	This is post migration work and due for Q4 depending on go live					
General Ledger	15	15	0	This is post migration work and due for Q4 depending on go live					
Pension Fund Investments	10	10	10	Draft Report (under review)	Substantial	0	4	1	13/11/2013
Governance Risk & Compliance Oracle Module	6	3	0	Lack of progress in developing module					
One Oracle Project (Meeting attendance)	5	5	5	Advisory					
Insurance	15	15	15	Draft Report	Limited (Deteriorated)	9	5	1	13/11/2013
Pre-Migration Audit - (AP/AR/GL/HR/Payroll)	0	20	17	Work In Progress					
Finance Total	81	98	47						
EDUCATION, HEALTH & SOCIAL CARE									
Christchurch	10	0	0	Deferred to 2014/15 at request of school					
Mount Stewart Junior	10	10	10	Draft Report	Substantial	4	6	4	21/11/2013
Our Lady of Grace Infants (after summer)	10	11	11	Draft Report	Substantial	3	9	4	19/11/2013
Our Lady of Grace Juniors	10	10	10	Final Report	Substantial	4	13	2	19/11/2013
Woodfield	10	10	18	Final Report	Limited	9	19	1	29/11/2013
Michael Sobell Sinai	10	0	0	Deferred to 14/15 at request of school					
Byron Court	10	13	13	Final Draft Report	Limited	4	13	5	12/09/2013
Manor Day	10	10	9	WIP					
Copland	10	0	0	Removed from plan due to academy proposals					
Braintcroft	10	10	9	WIP					
Harlesden	10	10	0	Due Q3 deferred to Q4 due to staff illness					
Kingsbury Green	0	10	10	Draft Report	Substantial (Improved)	2	7	4	29/11/2013
Malorees Infants	10	0	0	Deferred to 2014/15 at request of school					
Our Lady of Lourdes	10	10	10	Final Report	Substantial (Improved)	1	4	6	02/10/2013

Donnington	10	10	10	Final Report	Substantial	2	6	4	23/07/2013	
Fryent	10	10	10	WIP						
Northview	0	10	7	Work in Progress						
Mount Stewart Infants	0	10	10	Draft Report	Substantial	4	6	4	21/11/2013	
Other School Issues / Training	0	10	2	Ongoing						
Follow up work for the schools with Limited Assurance	20	30	13	Ongoing	Non Assurance Work					
Frameworkki (migration from various miscellaneous systems)	20	0	0	Due Q1 but replaced with two separate projects in light of system developments						
Troubled Families Programme Systems	15	0	0	Not done due to systems issues being picked up as a result of certification work						
Capital Grant Funding for Nursery Places for 2 Year Olds	5	5	5	Complete	Non Assurance Work				31/05/2013	
Gordon Brown Education Centre	10	10	2	Work in Progress						
Single Commissioning Unit (Children and Adult Social Services)	5	5	0	To be discussed with management						
Soft Box - Migration of Data on Abacus to Frameworkki	10	12	12	Draft Report	Limited	3	3	1	14/11/2013	
Safeguarding	15	15	0	Due Q4						
Transitions Team (14-25 year old)	15	15	0	Delayed due to team restructuring but likely to go ahead in Q4						
Sexual Health Contracts	10	0	0	Transferred to Contingency as to be covered as part of Public Health Audits - Grants to Voluntary Organisations						
Carers Audit	10	10	10	Draft Report	Limited	5	2	1	14/11/2013	
Troubled Families Grant Claim Certification Families Worked with June 2013	0	5	5	Claim certified						15/7/2013
Troubled Families Grant Claim Certification Families Worked with August 2013	0	5	5	Claim certified						23/8/2013
Troubled Families Grant Claim Certification Payment By Results August 2013	0	5	5	Claim certified						23/8/2013
Troubled Families Grant Claim Certification Payment By Results October 2013	0	6	6	Claim certified						25/10/2013

Troubled Families Grant Claims January 2014, March 2014	0	4	0	Due Q4					
Frameworki purchasing	0	12	12	Final Report	Limited	5	2	2	09/08/2013
Frameworki payments	0	11	11	Draft Report	Not applicable			9/10/2013	
Public Health Board	0	5	2	Ongoing					
Placements	0	25	20	Due Q3, WIP but delayed due to restructure within dept.					
Brent Foster Carers	0	12	0	Q4					
Frameworki Board Advisory	0	3	1	Ongoing					
Kingsbury Resource Centre	0	10	7	WIP					
Nurseries	0	20	1	Planning meeting held and audit to commence in January 2014					
EH&SC Total	285	379	256						
ENVIRONMENT & NEIGHBOURHOOD (E&N)									
Parking	20	20	0	Q4					
Highways Maintenance	15	0	0	Deferred to 14/15 by A&I					
Recycling & Waste	10	10	10	Final Report	Limited	1	1	0	26/06/2013
PFI - Street Lighting review of energy consumption data	5	3	3	Ill defined scope by management, project withdrawn by A&I during course of audit					
Vale Farm Contract	10	0	0	Due Q3, but withdrawn due to change in responsibility for contract management, now with LB Ealing. Needs different scope in 14/15.					
E&N Total	60	33	13						
GOVERNANCE & CORPORATE SERVICES									
Procurement	15	0	0	Deferred to 2014/15 due to delay in implementation of oracle					
Payroll systems audit	20	20	0	Q4 Depending on Oracle Go Live					
Members expenses and allowances	8	8	8	Final Report	Substantial (Deteriorated)	0	1	2	06/08/2013
Freedom of Information	10	15	15	Draft Report (under revision)	Limited	7	10	0	20/9/2013
G & CS Total	53	43	23						
REGENERATION & GROWTH (R&G)									
Capital Projects (contract audits)	30	30	0	Q4					
Civic Centre Project -	15	15	0	Q4					

Final Accounts									
Homelessness and Temporary Accommodation/Choice based letting/Housing Allocations	20	20	0	Q4					
S106	10	10	0	Q3					
Council Tax	15	15	13	WIP					
Local Council Support Scheme (formerly Council Tax Benefit)	12	12	9	WIP					
National Non Domestic Rates (NNDR)	15	15	13	WIP					
Use of NNDR Funds	5	5	0	Q4					
Housing Benefits / Discretionary Payments	20	20	14	WIP					
R&G Total	142	142	49						
ASSISTANT CHIEF EXECUTIVE'S PORTFOLIO									
Data Quality	10	10	10	Draft Report	Substantial	1	3	1	13/11/2013
Complaints	10	12	8	WIP					
Ward Working	15	0	0	Due Q1 but replaced with Grants to Voluntary Organisations in Q4					
Grants to Voluntary Organisations	0	10	0	Q4					
ACEP Total	35	32	18						
IT Audits (132 Days)									
Oracle - Pre Implementation	10	16	16	WIP					
Oracle - Post Implementation	8	12	0	Q4					
Migration of Appointeeship and Deputyship (Abacus, ResFunds, Quicken)	10	14	14	Final Draft Report	Limited	1	2	0	28/08/2013
View 360	10	10	10	Draft Report	Substantial (unchanged)	0	4	0	26/11/2013
Infostore - Apps Sharepoint Implementation	10	10	0	Q4					
Academy	10	10	10	Final Report	Substantial (Unchanged)	0	4	3	20/09/2013
Telecommunications (telephony with iphones and also to include Ipads)	15	20	1	Q4					

Security and management)										
I Pads Security and Management *	8	0	0	Now included in Telecommunications audit						
Network Infrastructure	20	15	0	Q4						
Remote Access	12	10	0	Q4						
Follow Up	8	8	2	On going						
Planning for 13/14 audit	1	1	1	Complete						
	122	126	54	10 days included in BHP Audit Plan						
OTHER										
Risk Management	15	15	5							
Governance & Audit Planning 2014/15	13	12	0							
Consultation, Communication and Reporting (Deloitte)	55	55	44							
Follow-Up	45	45	18							
A&I Office Move and archiving	10	15	15							
Contingency	19	3	0							
OTHER Total	157	145	82							
Brent Housing Partnership (BHP)										
Housing Repairs and Maintenance	12	12	0	Q4						
Housing Rents	8	8	8	Draft Report	Substantial	0	4	2	31/10/2013	
Major Works Contracts	10	10	0	Q4						
Financial Management	12	0	0	Replaced with Key Financial Systems Transactions Testing						
Key Financial Systems Transactions Testing - AR/AP/GL & Payroll	0	12	8	Work in Progress						
Rent Arrears Management	12	12	2	Work in Progress						
Budget Management	0	8	1	Work in Progress						
Treasury Management & Investment	8	0	0	Replaced with Budget Management						
Voids and Disrepair	10	10	12	Work in Progress						

Fire Safety and Gas Servicing	12	12	11	Work in Progress
Management of Non Brent Properties	12	12	0	Q4
Resident Involvement	12	12	8	Work in Progress
Leasehold Management and Service Charges	12	12	1	Audit Planning Meeting on 6th December and audit to start soon after
V5	10	0	0	Replaced with One Oracle Pre-migration audit below
One Oracle Pre-Migration	0	10	3	Work in Progress
Management and Follow up	20	20	12	
BHP Total	150	150	66	
Total	1200	1248	663	

Table 1 – Planned Projects and Progress as at 30/11/2013

3.5. A summary of progress is set out in table 2 below:

Delivery Status	
Total days in the plan	1248
Number of days delivered to date	663
% of days delivered to date	53%
Days to be delivered	585
Total number of reports to be delivered in current plan	81
Number of draft/final reports/certifications issued to date	28
% of reports issued to date	35%

Table 2 – Delivery Status as at 30/11/13

Internal Audit - Public Sector Internal Audit Standards (PSIAS)

- 3.6. In April 2013 the Public Sector Internal Audit Standards (PSIAS) came into force. These replace the CIPFA Code of Practice on Internal Audit in the Local Government in the United Kingdom (2006). The standards mandatory for all local authorities and establish the framework within which internal audit must operate. A copy of the standards can be viewed here: <http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>
- 3.7. Many of the requirements will be familiar to members, as they existed in the earlier standards, such as:
- The code of ethics for individual auditors including integrity, objectivity, competency and confidentiality
 - Defining and agreeing internal audit purpose and authority
 - Organisational independence of the internal audit function
 - Exercising due professional care
 - Effective planning and resourcing of assignments and quality assurance processes
 - Delivering an annual audit opinion on the control environment
- 3.8. A key change in the new standard is the requirement to have an external, independent assessment of internal audit once every five years. These must be conducted by a suitably qualified independent assessor from outside the organisation. The Head of Audit is required to discuss with the Audit Committee the form of this external assessment and the qualifications and independence of the assessor. The scope of the assessment must be agreed with either or both the Director of Finance and Chair of the Audit Committee. A recommendation regarding proposals for this external assessment will be brought to a future meeting of this committee.

External Audit - Local Audit and Accountability Bill

- 3.9. This bill is progressing through the House of Commons and is in its final stages. Royal assent is likely in December 2013. The bill will abolish the Audit Commission on 31st March 2015 and transfer any remaining functions to other bodies. It also introduces the requirement for the council to appoint its own external auditors. KPMG have been appointed for a five year period from 2012/13, the council should plan to make its first appointment for the 2017/18 year. The appointment will have to be made by 31st December 2016 by an independent appointment panel which must have a majority of independent members.

3.10. The bill makes provision for local authorities to jointly procure and for a single independent panel to make decisions on behalf of a number of authorities. Given the procurement process will take a number of months, depending on decisions with regard to joint procurement and length of appointment, an independent panel will need to be in place in sufficient time to allow for proper consideration of contract specification, evaluation criteria etc. This will be a complex procurement and the first time the council has been required to engage its own external audit provider, either independently or via a joint procurement process. A detailed report on this matter will be brought to a future meeting of the Audit Committee.

Fraud - Housing Benefit

3.11. The team continues to receive a high volume of fraud referrals and, as with previous years, a high percentage of cases have to be screened out without investigation. Some of these are screened due to there being no evidence of fraud, i.e. the claimant has been accused of working and claiming but has already notified the council of work. However, some cases which may be fraudulent have to be screened due to the sheer volume. There is a process of case screening which considers the quality of evidence, likely value of overpayment and other factors. Some cases which are screened out are referred onto the Department for Work and Pensions. Those which are not screened out are passed for investigation. An investigation will be closed once there is sufficient evidence to establish that a fraudulent overpayment of benefit has occurred and a sanction has been applied or no further action is warranted. Investigations range in length from a few months to many years for complex prosecutions.

3.12. The team carried three vacancies during the first quarter of the year and this caused a drop in the number of cases completed. Over the past 18 months the team had a number of unsuccessful attempts to fill positions with both permanent and temporary staff. The team currently has two vacancies following the successful recruitment of one additional permanent member of staff. A further candidate had accepted an offer although withdrew this due to the restructuring proposals. The proposed new structure should help to address the high number of benefit fraud allegations which cannot currently be investigated.

3.13. The sanctions available for HB fraud are: Overpayment recovery, a caution administered by the council, an administrative penalty and criminal prosecution. In recent years the Audit and Investigation team have prioritised high value fraud resulting in a higher proportion of prosecutions. This has resulted in fewer sanctions but higher value overpayments. Caseload data is shown in table 3 below:

HB Fraud	20013/14 Quarter 1	20013/14 Quarter 2	2013/14 Year to date	20012/13
Referrals	152	198	350	666
Closed	213	413	626	622
Passed to other agency	37	31	68	N/A
Screened Out	147	356	503	432
% screened	69%	86%	80%	69%
Investigated	29	26	56	190
Fraud Found	17	17	34	121
Hit Rate	58%	65%	62%	64%
Caution	0	0	0	0
Admin Penalty	8	4	12	34
Prosecution	8	7	15	28
Total Sanctions	16	11	27	62
Summons Only	0	0	0	4
Overpayment Only	1	6	7	43

Table 3 – HB Fraud Q2 2013

3.14. At the end Q2 the team had completed investigations into 56 cases, identifying fraud in 34 of these. Overpayments of £1,013,000 have been identified of which £680,000 relates to HB/CTB. There are negative subsidy implications arising from the identification of fraudulent and claimant error overpayments. The council normally receives 100% subsidy from the DWP for housing and council tax benefit payments. Where overpayments are identified as a result of fraud or claimant error, the subsidy is reduced to 40%. However, the council is allowed to retain the full amount of the overpayment where it can be recovered. Due to the difficulties in tracking overpayment recovery, which can occur over a number of years and

through different routes, it is not easy to identify the net losses arising from fraud cases.

3.15. At the Audit Committee meeting in June 2013, members requested comparator information on benefit fraud performance. The DWP collect fraud statistics on a quarterly basis from all councils and these are published on their website. The following statistics are available: Total value of HB overpayments outstanding at the start of the quarter; Total value of HB overpayments identified during the quarter; Total value of HB overpayments recovered during the quarter; Total value of HB overpayments written off during the quarter; Number of full time equivalent fraud investigators; Number of referrals; Number of cases subject to investigation closed; Number of cases subject to investigation closed with a DWP interest; Number of cautions offered and accepted; Number of administrative penalties offered and accepted; Number of administrative penalties offered and accepted with a DWP benefit interest; Number of cases accepted for prosecution; Number of cases accepted for prosecution with a DWP interest; Number of successful prosecutions; Number of successful prosecutions with a DWP interest.

3.16. Although this data can be used for some comparison purposes, there are a number of caveats. The number of referrals and closed investigations is also problematic as there are different interpretations of a referral, i.e. some councils include all of their data matching hits as referrals. This skews the data. In relation to the number of sanctions the DWP use a rounding protocol which rounds to the nearest 5. Hence, an authority which identifies 12 sanctions in the quarter will have this rounded down to 10. If that so happens for each quarter their reported sanctions will be 40 when in reality they should be 48. Members need to be mindful of those caveats when considering the data. A subset of the data for 2012/13 is shown below with Brent's actual, rather than rounded, figures shown:

	Average number of operational in year	Total Referrals	Number of cases subject to investigation closed*	Cautions	Prosecutions	Adpens	Total Sanctions
Barking and Dagenham	3.9	425	190	20	15	20	55
Barnet	3.5	330	255	15	20	55	90
Bexley	2.9	440	180	55	15	10	80

Brent	3.0	666	465	.	28	34	62
Bromley	5.5	470	480	10	25	35	70
Camden	4.6	865	340	40	10	25	75
City of London	1.1	35	20	-	5	-	5
Croydon	3.5	720	600	55	35	25	115
Ealing	5.8	370	355	50	25	45	120
Enfield	3.0	425	90	15	10	5	30
Greenwich	5.0	535	625	5	15	15	35
Hackney	5.0	490	225	10	20	20	50
Hammersmith and Fulham	2.1	95	185	.	10	5	15
Haringey	4.0	295	250	.	30	.	30
Harrow	2.1	625	95	5	10	20	35
Havering	3.8	460	375	15	25	20	60
Hillingdon	5.0	620	485	20	20	25	65
Hounslow	3.8	425	245	20	10	20	50
Islington	5.5	295	510	15	20	25	60
Kensington and Chelsea	3.5	500	500	45	15	25	85
Kingston upon Thames	3.0	270	245	10	20	-	30
Lambeth	2.6	525	85	10	10	15	35
Lewisham	4.0	305	445	60	15	10	85
Merton	4.5	275	140	45	15	10	70
Newham	5.8	900	825	50	30	50	130
Redbridge	5.5	2,840	2,130	15	30	10	55
Richmond upon Thames	2.5	285	260	10	5	10	25
Southwark	5.5	1,070	390	5	45	10	60
Sutton	3.5	590	505	35	20	65	120
Tower Hamlets	9.3	960	405	25	40	35	100
Waltham Forest	4.0	655	470	25	15	60	100
Wandsworth	3.8	2,630	410	15	25	25	65
Westminster	8.8	860	485	25	25	55	105

Table 4 – Housing Benefit Fraud Data for London collated by DWP

(*Includes cases which have been subject to screening)

Housing Tenancy Fraud

3.17. Tenancy fraud occurs due to the sub-letting of council properties, false declaration of circumstances on housing and homeless applications and, more recently, there have been cases of individuals over stating their family size in order to obtain larger properties. Since 2010/11 the government has provided additional funding to encourage councils to address sub-letting fraud and to work with housing associations to detect sub-letting within their stock. The funding has enabled the council to employ two additional staff in this area and increase property recoveries. The Audit Commission estimate that the value of each recovered tenancy is £18,000. Caseload information is shown in table 5 below.

Housing Fraud	2013/14 Quarter 1	2013/14 Quarter 2	2013/14 Year to date	2012/13
Referrals	101	32	133	206
Closed	79	73	157	227
Screened Out	6	6	12	5
Investigated	73	67	145	222
Fraud Found	12	22	34	59
Recovered Property	10	21	31	57
RTB Stop	0		0	0
Application refused	0		0	1
Property Size reduced	2	1	3	1

Table 5 – Housing Fraud Q2 2013/14

Other External Fraud

3.18. The most prevalent area of activity in this category relates to Blue Badge forgery and misuse. Following recent successful Blue Badge proactive exercises there were five prosecutions during the quarter.

Internal	2013/14			2012/13
	Quarter 1	Quarter 2	Year to date	
Referrals	19	27	46	65
Closed	18	21	39	40
Screened Out	1	0	1	2
Investigated	17	21	38	31

Fraud / Irregularity	10	16	26	12
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Table 6 – Other External Fraud Q2 2013/14

Internal Fraud

3.19. Internal fraud refers to fraud committed by employees, agency staff and staff in schools. For the purposes of this report, “fraud” includes any financial irregularity or malpractice or serious breach of financial regulations or the staff code of conduct. Since the beginning of the financial year, four staff have been dismissed for the following reasons: Working and claiming benefit; working whilst off sick; false overtime claims (school) and a conflict of interest. Activity for the first two quarters is shown below:

Internal	2013/14			2012/13
	Quarter 1	Quarter 2	Year to date	
Referrals	12	8	20	47
Closed	8	5	13	42
Screened Out	0	0	0	1
Investigated	8	5	13	41
Fraud / Irregularity	2	3	5	18
Dismiss	2	2	4	5
Resign	0	0	0	10
Warning	0	1	1	2

Table 7 – Internal Fraud Q2 2013

Proceeds of Crime Act cases

3.20. The Audit and Investigation team currently utilise 0.5 of a permanent post to undertake the functions of a financial investigator (FI) under the Proceeds of Crime Act 2002. This enables the council to utilise the powers available under the act to obtain confiscation orders following successful convictions. This can be an effective way of recovering fraudulently obtained funds. The Act also permits recovery of funds in excess of the amount stolen, these have to be generated by the proceeds of the crime and the onus is on the defendant to prove that all income and capital generated is from legitimate means. For example, a defendant who was able to purchase property arising from a benefit fraud may be required to pay the Treasury,

any amount of profit associated with the purchase. Under a scheme known as “Incentivisation”, the council can receive up to 37.5% of the funds confiscated over and above the value of the original fraud.

3.21. Confiscation proceedings are pursued where convicted individuals have sufficient assets to meet an award and FIs have specific powers under which assets can be identified and, potentially, seized or restrained. A&I have utilised these powers in benefit and direct payment fraud cases and have also conducted work on behalf of the planning service in respect of enforcement prosecutions. Orders have a fixed time period, usually a minimum of six months, in which they have to be satisfied. Failure to pay confiscation orders results in a default sentence based upon the amount of award. Sentences commence on completion of the conviction sentence. Caseload information is shown in table 8 below:

Internal	2013/14			2012/13
	Quarter 1	Quarter 2	Year to date	
Referrals	2	2	4	2
Closed	2	2	2	15
Confiscation Orders	1	1	2	8
NFA	1	1	2	7
Value of Orders Made	£14,600	£235,000	£249,600	£726,000
Compensation	£14,600	0	£14,600	£83,000
LB Brent Incentivisation Income (if paid)	0	£88,100	£88,100	£241,100

Table 8 – Proceeds of Crime Act Cases

Proactive Fraud Drives

3.22. In addition to a reactive response to individual referrals, the team also conducts proactive anti-fraud initiatives. Since 1st April 2013 these have included: Two on street Blue Badge enforcement operations with the police, resulting in 9 badge seizures; client index to single person discount sample of 100 cases checked resulting in identification of £1,800 over claim; NNDR charitable relief checks resulting in identification of overclaims of £30,000.

General Fraud Issues

- 3.23. The investigation team is currently split across three specialisms, housing benefit fraud, tenancy fraud and internal/other fraud. The team was subject to a 30 day consultation period on restructure proposals which ended on 6th December 2013. These proposals will be finalised in mid December. Members will be provided with a verbal update at the committee meeting.
- 3.24. The DWP's long term proposals for the Single Fraud Investigation Service (SFIS) are beginning to take shape. In the Autumn Statement on 5th December 2013 the government confirmed that it will implement a single fraud investigation service within the DWP to investigate all welfare benefits. This will mean that the council will no longer have responsibility for housing benefit fraud. The exact date of transfer of responsibility is not yet known although the DWP have stated this will occur sometime between October 2014 and March 2016.
- 3.25. The Audit Commission have recently released the results of their annual survey of detected fraud losses in local government, Protecting the Public Purse 2013. This is available here: <http://www.audit-commission.gov.uk/2013/11/protecting-the-public-purse-2013/>
- The main headlines are that local authorities detected 107,000 fraud cases in 2012/13 with a value of £178m. Of this £120m related to housing or council tax benefit. Whilst there is a small decline nationally in the value and volume, London has experienced a 36% increase in detected fraud.
 - In addition, councils recovered 2,640 council homes which had been sub-let with an estimated value of £47.5m. London accounts for 58% of the recovered properties.
 - There has been an 82% increase in the number of direct payment frauds detected with 200 cases in 2012/13 with a value of £4m.

4. Financial Implications

4.1. None

5. Legal Implications

5.1. None

6. Diversity Implications

6.1. None

7. Background Papers

1. Report from the Director of Finance and Corporate Services – Draft Internal Audit Plan 2013/14, Audit Committee 30th March 2013
2. Report from the Deputy Director of Finance and Corporate Services – Internal Audit Progress Report, Audit Committee 25th September 2013

8. Contact Officer Details

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