



Audit Committee
22 September 2016

Report from the Chief Finance Officer

For Information

Wards Affected:
ALL

Internal Audit & Counter Fraud Progress Report for the period 1 April – August 2016

1. Summary

- 1.1 This report provides an update on the progress against the internal audit plan for the period 1 April 2016 to 31 August 2016. The appendix to the report also summarises those reports from the 2015/16 plan which have been finalised since the last meeting of the committee. The report also provides a summary of counter fraud work for the first quarter of 2016/17.

2. Recommendations

- 2.1. That the Audit Committee notes the progress made in delivering the 2016/17 Internal Audit Plan and the associated counter fraud work.

3. Detail

- 3.1. The Internal Audit Plan for 2016/17 comprises 1,110 days. 590 days will be delivered by PwC. The in-house resource will deliver a further 520 days.
- 3.2. Much of the work of the first quarter of the year focused on the completion of the 2015/16 plan. A summary of reports finalised during the first quarter relating to last year's plan are summarised in appendix 1.
- 3.3. Following a competitive tender process, PricewaterhouseCoopers (PwC) were appointed as the new Strategic Audit Partner for the Shared Service, for 2016-2020. The contract was not finally signed until the 16th of June 2016 but practical arrangements were made to mobilise work activity to avoid delays. These included the following mobilisation activities to ensure an effective transition from the previous internal audit service providers, Mazars:
- Established an agreed working protocol with the Head of Internal Audit and Investigation;
 - Agreed revised terms of references and interactive reporting templates with the Head of Internal Audit and Investigation;

- Held meetings with the Head of Internal Audit and Investigation and other key stakeholders to agree audit approaches, form a project plan to support the delivery of the audit plan and establish contract management arrangements; and
- Arranged Audit Committee training for all three boroughs.

3.4. The key points to note with regards to progress for the current year are:

- Two reports from the 2015/16 audit plan have been finalised since the last meeting of the Committee. Both reports had substantial assurance opinions and details are included in the Appendix 1 of this report.
- There are 56 internal audit projects included within the agreed 2016/17 plan (excluding follow up and advisory work). Work has commenced on fifteen of these.
- Three audits projects have been delayed at the request of management. Details of the audits which have been delayed are set out in Table 2.
- Seven audit projects have been completed to draft or final stage. Three of them have an audit opinion associated with them. One has a substantial opinion and two limited opinions. The remaining four relate to grant and account certifications as well as consultancy work which do not have an assurance rating attached.

Table 1– Projects Added to original plan

Audit	Reason
Planning Applications	At the request of management
IT Risk Diagnosis	Shared Service Project undertaken by contractor
Assurance Mapping	Shared Service Project undertaken by contractor
Kilburn Square TMO (BHP)	At the request of BHP Management
Essential User Permits	At the request of management
Rogue Landlords Grant Certification	Grant Certification work
Data Protection (BHP)	At the Request of BHP Management

Table 2 – Projects to be Delayed

Audit	Reason
Procurement – Non major works (BHP)	Postponed until Q4 at the request of management due to ongoing structural changes within the team
BHP Owned Properties	Postponed until the early part of Q3 at the request of management due to staff being unavailable to assist with the audit
IT Application Audits	Postponed to Q4 at the request of management and work being carried out on IT Risks by the PWC

A summary of progress is set out in table 3 below:

Table 3 – Delivery Status as at 31 August 2016

Delivery Status	
Total number of reports to be delivered in current plan	56
Number of draft/final reports/certifications issued to date	7
% of reports issued to date	13%

- 3.5. Members will note that progress to date on the 2016/17 internal audit plan is currently below the profiled target for quarter one. This has largely been due to the significant amount of work required to finalise the outstanding 2015/16 audits, during the quarter following the termination of the contract with Mazars. However, the expectation is that the plan will still be delivered within the year.

3.6. Follow Up of 2015/16 Audit Recommendations

The Public Sector Internal Audit Standards requires the Chief Audit Executive (the Head of Audit & Investigation) to establish a process to monitor and follow up management actions to ensure that they have been actively implemented or that senior management have accepted the risk of not doing so.

Of the 92 Priority 1 and 2 recommendations arising from 2015/16 audits and due to be implemented by 31st August 2016, 36 had either been fully or partly implemented and three had yet to be implemented. We were unable to determine the status of 53 recommendations because responsible officers had still to update the relevant details on Infostore.

As will be noted from the table below, some action plans agreed by management as part of the audit process are not being completed effectively and on a timely basis. Some officers are not updating the status of the implementation of recommendations on Infostore as part of the self-assessment process agreed with management.

Table 4 – Status of 2015/16 Priority 1 and 2 Recommendations

Total Number of Recommendations	Total	Implemented	Partly Implemented	Not implemented	Status Unknown
Priority 1	9	4	0	1	4
Priority 2	83	32	0	2	49
Total	92	36	0	3	53

Internal Fraud

- 3.7. Internal fraud refers to fraud committed by employees, agency staff and staff in maintained Schools. For the purposes of this report, “fraud” includes instances of theft, fraud, misappropriation, falsification of documents, undisclosed conflicts of interest and serious breach of financial regulations. Activity for the first quarter of the year to date is shown in table 5 below:

Table 5 – Internal Fraud 2016/17

Internal	2016/17 Q1	2015/16 Q1	2015/16
Open Cases b/f	22	11	21
New Referrals	10	10	42
Closed Cases	10	10	31
Fraud / Irregularity identified (as summarised below)	2	7	9
Dismissal	0	0	3
Resignation	1	2	5
Warning	0	5	1
Other positive outcome (e.g. system improvement, overpayments only)	1	N/A	
Open cases carried c/f	22	33	22

- 3.8. More internal fraud cases were brought forward from quarter 4 of 2015/16 compared to the quarter 4 of 2014/15 (see cases brought forward into Q1 of 2015/16 in table above). The reason for this as a result of joint working with the Single Fraud Investigation Service (SFIS) on internal related NFI cases (i.e. staff benefit fraud matches). Such cases were previously dealt with in-house as a matter of priority. However the Council’s Investigation Team is now required to wait for SFIS to determine action on each case following their own investigations and prior to these being passed on to the Team. SFIS takes the lead in determining whether or not there has been benefit fraud and the Team often has to wait for significant periods for these cases to be investigated.

Housing Tenancy Fraud

- 3.9. Recovery of social housing properties has a significant impact upon the temporary accommodation budget. The Audit Commission have estimated that the average value, nationally, of each recovered tenancy is £18,000*. Caseload information is set out in table 6 below.

Table 6 – Housing Fraud 2016/17

Housing Fraud	2016/17 Q1	2015/16 Q1	2015/16 Full Year
Open cases b/f	121	150	174
New Referrals	140	73	250
Closed Cases	101	76	314
Fraud Found	13	21	73
Recovered Properties	10	18	63
Applications Refused	0	4	2
Property Size Reduced (Rehousing)	1	1	5
Home Loss payment recovered	0	0	0
Right To Buy	2	2	3
Value of properties recovered*	£180,000	£324,000	£1,134,000
Value of Right to Buy Discount Prevented**	£207,800	£177,700	£90,000
Value of Property Size Reduced	£18,000	£18,000	£281,600
Open cases carried c/f	160	147	121
Cases with Legal for Possession	33	23	18

*Notional value of recovered properties is £18,000

** Actual amount of discount stopped

- 3.10. There are three main reasons why the number of cases found to be fraudulent have fallen compared to the previous financial year. Significant proactive work was carried out during the last quarter of 2015/16 on behalf of Genesis; London & Quadrant and the Hyde Housing Associations with these three proactives requiring the Team to start work on around 200 cases initially. The vast majority of these cases were however identified as being non-fraud cases. The Team also undertook work on behalf of two other Residential Social Landlords (RSLs) on the basis of the Council being able to exercise nomination rights should any recoveries be progressed. With regards to cases with Legal Services, there are delays in cases being dealt with by the service. It should also be noted that the priorities of the Investigations Team has shifted towards prosecuting more cases under Social Housing offences which explains why more cases are with currently with Legal Services. The first prosecution under the Prevention of Social Housing Fraud Act was heard in June this year. The person who was

prosecuted was found guilty on three counts and an illegal profit order is currently being progressed.

Other External Fraud

- 3.11. This category includes all other external fraud/irregularity cases, such as blue badge, direct payments and council tax discounts.

Table 7 – Other External Fraud 2016/17

Other External Fraud	2016/17 Q1	2015/16 Q1	2015/16 Full Year
Open cases b/f	57	18	56
New Referrals	83	9	99
Closed Cases	34	15	62
Fraud / Irregularity	4	0	10
Prosecution	0	0	0
Warning / Caution	1	0	3
Overpayment Identified	1	0	7
Open cases carried c/f	106	12	57

- 3.12. The main reason for external fraud referrals increasing by such significant numbers is because more work has been done to generate referrals on the Council Tax Reduction Scheme (96 cases were referred to the Team with a number of cases being brought forward from the previous year). These matches are being generated by the Brent Benefit's Team who have been proactively matching year-end tax data to benefits data. In addition the Team has carried out proactive work on No Recourse to Public Funds (NRPF) cases (six in total) and more referrals have been generated on Blue Badge fraud for misuse and stolen badges (five in total cases).

4. Financial Implications

- 4.1. There are no specific financial implications associated with noting this report. However the effectiveness of financial controls and fraud investigation can clearly have financial implications.

5. Legal Implications

- 5.1. None

6. Diversity Implications

- 6.1. None

7. Background Papers

7.1. None

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