

 <p data-bbox="325 456 584 533">Brent</p>	<p data-bbox="906 264 1251 360" style="text-align: center;">Audit Committee 11 January 2017</p> <p data-bbox="772 448 1385 539" style="text-align: center;">Report from the Chief Finance Officer</p>
<p data-bbox="217 611 437 645">For Information</p>	<p data-bbox="1214 611 1445 678" style="text-align: right;">Wards Affected: ALL</p>
<p data-bbox="217 707 1445 801" style="text-align: center;">Internal Audit & Counter Fraud Progress Report for the period 1 September – 30 November 2016</p>	

1. Summary

- 1.1. This report provides an update on the progress against the internal audit plan for the period 1 September 2016 to 30 November 2016. The appendix to the report also summarises those reports from the 2016/17 plan which have been finalised since the last meeting of the Audit Committee. The report also provides a summary of counter fraud work for the second 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 is delivered by a small in house team, currently led by an interim Head of Audit & Investigations, and the Strategic Partner, PriceWaterhouseCoopers (PwC).
- 3.2. Since September there has been increased momentum in the delivery of the audit plan as relationships develop and knowledge of the organisation by both the interim Head of Investigations and new Strategic Partner increases.
- 3.3. Monthly liaison meetings to discuss plan delivery take place and ad hoc meetings are diarised in between to resolve issues or discuss audits. A strategic meeting is planned on a quarterly basis and this will be attended by the Chief Financial Officer. Recent feedback from Corporate Management Team regarding the service and their requirements have been shared and incorporated into future plans.
- 3.4. The key points to note with regards to progress for the current year are:
- There are fifty six internal audit projects included within the agreed 2016/17 plan (excluding follow up and advisory work). Work has commenced on thirty six of these.
 - Eleven audits were removed and twelve audits were added to the original plan.

Details are in Tables 1 and 2 below.

- Twenty five internal audit projects have been completed to draft or final stage. Sixteen of them have an audit opinion associated with them. Six have a substantial opinion and ten limited opinions. This ratio is of concern, but less so than appears on the face of it, as audit work has deliberately been focused on areas of known or suspected weakness in order to enhance the control environment. Of the remaining nine projects, five relate to grant and account certifications and the remaining four to 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	Risk assessment undertaken by Strategic Partner to inform the audit needs relating to IT Risk.
Assurance Mapping	Exercise undertaken by Strategic Partner to identify gaps in assurance to feed into the 2016/17 plan and also inform 2017/18 audit planning process.
Kilburn Square TMO (BHP)	At the request of BHP Management
Essential User Permits	At the request of Management
Planning Applications – Investigation	At the request of Management
Rogue Landlords Grant Certification	Grant Certification work
Data Protection (BHP)	At the Request of BHP Management
Pensions Review	At the Request of Management
IT Governance	High Risk audit areas identified by the Risk Diagnostic. All three will be scoped two will be completed in 2016/17 and the third will be early in 2017/18 along with some of the Medium Risk audits.
3 rd Party Management Information	
IT Disaster Recovery	

Table 2 – Audits Removed From the Plan

Audit	Reason
Asset Management Strategy	Assurances available to Management from alternative sources.
Remote Access & Home Working (IT)	Replaced by the audit areas identified as High Risk via the Diagnostic exercise.
Application Audit	
Client Index (IT)	
Information Security	
One Oracle Application	
Virtual Schools – for Looked After Children	Change of Risk Rating.
ICO Follow Up	Followed up by Information Governance Team.
Democratic Services	Change of Risk Rating.
John Billam Centre	Assurances available to Management from alternative sources.
Parking Enforcement	Replaced by Review of Essential User Permits for Staff and Contractors

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

Table 3 – Delivery Status as at 30 November 2016

Delivery Status	
Total number of reports to be delivered in current plan	56
Number of draft/final reports/certifications issued to date	25
% of reports issued to date	45%

3.5. Members will note that progress to date on the 2016/17 internal audit plan is currently below the profiled target at the end of November. However the expectation is that the plan will still be delivered within the year. Allocation of audits has been reviewed some resources to undertake pro-active fraud work rather than risk based systems audits has enabled the investigations team to support delivery of the audit plan and some additional audits have been allocated to PwC, whilst remaining within the original

budget for year.

4. Follow Up of 2015/16 Audit Recommendations

- 4.1. 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.
- 4.2. A database of all previous internal audit recommendations has been established on the Council's InfoStore system. Managers have access to this, and self-certify progress against recommendations, which are then subject to periodic sample checks by internal audit. Most organisations have a broadly similar system for tracking progress against previous audit recommendations.
- 4.3. Of the 105 Priority 1 and 2 recommendations arising from 2015/16 audits and due to be implemented by 30 November 2016, 68 had either been fully or partly implemented 6 had yet to be implemented and 3 were no longer applicable due to changes within the relevant service. We were unable to determine the status of 28 recommendations because responsible officers had still to update the relevant details on Infostore. Table 4 sets out the summary.

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

Total Number of Recommendations	Total	Implemented	Partly Implemented	Not implemented	N/A	Status Unknown
Priority 1	15	12	0	0	3	0
Priority 2	90	54	2	6	0	28
Total	105	66	2	6	3	28

5. Internal Fraud

- 5.1. 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 second quarter of the year to date is shown in table 5 below:

Table 5 – Internal Fraud 2016/17 (Q2)

	2016/17 Q2	2015/16 Q2	2016/17 Q1	2015/16 Q1	2015/16 Full Year
Internal					
Open Cases b/fwd	22	33	22	11	21
New Referrals	4	5	10	10	42

Closed Cases	11	15	10	10	31
Fraud / Irregularity identified (as summarised below)	4	5	2	7	9
Dismissal	1	2	0	0	3
Resignation/Officer Left	0	2	1	2	5
Warning	1	1	0	5	1
Other positive outcome (e.g. system improvement, overpayments only)	2	N/A	1	N/A	
Open cases carried c/f	15	23	22	33	22

5.2. We previously reported that more internal fraud cases were brought forward from quarter 4 of 2015/16 compared to the quarter 4 of 2014/15 and that the reason for this was a result of joint working with the DWP's Single Fraud Investigation Service (SFIS) on internal related NFI cases (i.e. staff benefit fraud matches). The liaison with SFIS has increased and more progress is being made on joint working. It is important to note that the Council's Investigation Team is now required to wait for SFIS to determine action on each case following their own investigations prior to these being passed to Brent's Audit & Investigations Unit.

5.3. Of the four internal fraud cases in which fraud or irregularities were identified details are as follows:

- In one case an officer was dismissed for breach of Financial Regulations (misuse of Zip Cars);
- In another case an officer from a school was given a final written warning for failing to declare a conflict of interest;
- One case was in relation to external fraud that was closed down in Q2 and linked to three internal disciplinary cases which had been previously dealt with; and
- The remaining case was in relation to the alleged misuse by an officer of the Blue Badge system. The outcome of which was that there was no evidence to support the allegations.

5.4. There is currently a definitive plan in place, led by the new Interim Head of Audit & Investigations to re-invigorate various aspects of anti-fraud work. This will include proactive work on Housing fraud, Procurement fraud, a new anti-fraud awareness programme and targeted internal fraud pro-active exercises including Zipcar usage and sickness absence

6. Housing Tenancy Fraud

- 6.1. 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*. The £18,000 figure is notional and some neighbouring Councils (e.g. Harrow) use a much greater figure based on an estimate of actual temporary housing costs over a three year period. Another National report in 2014 recommended using £75,000 per property recovered. This was based on an average three year fraudulent tenancy and included temporary accommodation for genuine applicants, legal costs to recover property, re-let cost and rent foregone during the void period between tenancies. The Audit & Investigations Unit will do more work to benchmark and recommend the most figure to use in the next report. Caseload information is set out in table 6 below.

Table 6 – Housing Fraud 2016/17

Housing Fraud	2016/17 Q2	2015/16 Q2	2016/17 Q1	2015/16 Q1	2015/16 Full Year
Open cases b/fwd	160	182	121	150	174
New Referrals	90	118	140	73	250
Closed Cases	111	112	101	76	314
Fraud Found	13	17	13	21	73
Recovered Properties	11	13	10	18	63
Applications Refused	NIL	1	0	4	2
Property Size Reduced (Rehousing)	2	2	1	1	5
Home Loss payment recovered	NIL	NIL	0	0	0
Right To Buy	NIL	1	2	2	3
Value of properties recovered*	198,000	234,000	£180,000	£324,000	£1,134,000
Value of Right to Buy Discount Prevented**	NIL	103,900	£207,800	£177,700	£90,000
Value of Property Size Reduced	36,000	36,000	£18,000	£18,000	£281,600
Open cases carried c/f	139	188	160	147	121

Cases with Legal for Possession/Prosecution	34/3	22	33	23	18
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*Notional value of recovered properties is £18,000

** Actual amount of discount stopped

- 6.2. Housing Fraud figures are on track to meet the annual target of 51 - currently 26 cases have been identified as fraud, these case include all fraud relating to social housing e.g. Right to Buy and property size reductions. 118 referrals were received in total from London & Quadrant Housing Association as part of a proactive exercise.
- 6.3. Since Quarter 4 of the 2015/16 financial year there has been a greater emphasis placed on the prosecution of housing fraud and Proceeds of Crime Act (POCA) and Profit Orders rather than just recovery of the tenancy.
- 6.4. With regards to Right to Buy (RTB) fraud, there has been a greater emphasis on tackling RTB fraud since 2015/16. The Team is currently liaising closely with the Right to Buy Team to develop a more pro-active anti-fraud approach, which is anticipated to be in place by early 2017. Right to Buy fraud is deemed to be a significant risk to Council's housing stock.

7. Other External Fraud

- 7.1. 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 Q2	2015/16 Q2	2016/17 Q1	2015/16 Q1	2015/16 Full Year
Open cases b/fwd	106	12	57	18	56
New Referrals	30	66	83	9	99
Closed Cases	64	15	34	15	62
Fraud / Irregularity	3	5	4	0	10
Prosecution	1	NIL	0	0	0
Warning / Caution	1	2	1	0	3
Overpayment Identified	NIL	3	1	0	7

Open cases carried c/f	72	63	106	12	57
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- 7.2. The main reasons for the increases in open cases brought forward in Q2 of 2016/17 compared to the same quarter in 2015/16 is as a result of proactive work undertaken in the areas of Council Tax Reduction Scheme and No Recourse to Public Funds.
- 7.3. In Q4 of the 2015/16 financial year some work was carried out to explore a more workable approach to tackling Council Tax Reduction Scheme (CTRS) fraud. 82 cases have since been reviewed in detail. Due to complexities with DWP's remit to investigate Housing Benefit /Council Tax Benefit fraud and systems enhancements which are needed in CTRS administration, only a handful of suitable cases are being progressed to interview/sanction. This area of work has been put on hold until recommendations with the CTRS administration has been implemented to comply with legislation.
- 7.4. With regards to No Recourse to Public Funds (NRPF), the Team have developed a referral stream with the NRPF Team. However, new verification procedures within the NRPF has meant that more onus is being placed on clients to provide supporting documentation and as such, it is not expected that there will in future be any a significant increases referrals.
- 7.5. The Team also identified some weaknesses in controls around information security relating to CTRS data and recommendations have been made to address these.
- 7.6. A Blue Badge pro-active operation was undertaken in October 2016 as part of a joint working agreement with Parking Enforcement and the Police. Four badges were seized on the day and we are currently investigating an additional two cases involving counterfeit badges.

8. Financial Implications

- 8.1. 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.

9. Legal Implications

- 9.1. None

10. Diversity Implications

- 10.1. None.

11. Background Papers

- 11.1. None.

12. Contact Officer Details

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