

 Brent	<p>Audit Committee 20 March 2017</p> <p>Report from the Chief Finance Officer</p>
For Information	Wards Affected: ALL
Internal Audit & Counter Fraud Progress Report	

1. Summary

- 1.1.** This report provides an update on the progress against the internal audit plan for the period 1 December 2016 to 28 February 2017 and updates on the counter fraud work completed in quarter 3 of 2016/17. 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.

2. Recommendations

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

3. Detail

3.1 Internal Audit Plan & Service Development

- 3.2** During February the Interim Head of Audit and Investigations and the PricewaterhouseCoppers (PwC) Engagement Manager have attended departmental Management Teams to discuss the Audit Plan and the needs of Management with regards the audit service. These meetings along with a focused session regarding assurances over schools financial and governance arrangements have helped to shape the strategies and work plans for the team for 2017/18 and as a result will also inform thinking around the structure of the team when officers are TUPE transferred back to the Council, the process to do which has commenced.

- 3.3** Senior Management have shown a strong commitment to engaging with the service and communicated their requirements for an added value service for the Council. The recruitment process for the Head of Audit and Investigations is underway, it is expected that the new post holder will be in place by June 2017.

3.4 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, PwC.

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

- There are sixty three internal audit projects included within the 2016/17 plan (excluding follow up and advisory work). Work has commenced on fifty four of these.
- The Committee should note that there were originally 56 projects in the plan approved by the Committee in March 2017. At the January meeting reported to the Committee that twelve projects had been added and an eleven removed from the plan increasing the total number to 57 projects. Since then an additional nine projects have been added and two removed, bring the number of projects to be delivered to 63. Details of these are set out in the tables 2 and 3 below.
- Thirty five internal audit projects have been completed to draft or final stage. Twenty three of them have an audit opinion associated with them. Twelve have a reasonable assurance opinion and eleven have limited opinions. Finite audit resources are directed to areas where there are concerns from management which does mean that the percentage of limited assurance deliverables has increased. Other factors causing the proportion of limited reports to increase could be the result of an increased tolerance to risk within services; loss of controls as a result of loss of capacity or weaknesses in the understanding of risk and control within management. The 2017/18 Internal Audit Strategy has considered the needs of the council and the implementation of a new approach to risk management will also help to strengthen arrangements. Of the remaining twelve projects, five relate to grant and account certifications and the remaining seven to consultancy work which do not have an assurance rating attached. Please see summary in Table 1 below

Table 1 – Summary of Audits Completed Since last audit report

Total Number of Audits Completed	Reasonable 	Limited 	None 	Non Assurance	
Finals	5	6	-	9	20
Draft	7	5	-	3	15
Total	12	11	-	12	35

Table 2– Projects Added to Original plan

Audit	Reason
Zip Cars	As a result of an investigation
CAM Phase 2	Additional Testing
Additional Troubled Families Grant Claim (3)	Additional Claims certified with March 2017 claim outstanding
Public Funerals and Property Protection	At the request of Management
Conflict of Interest & Gifts & Hospitality (Employees)	Separate Report drafted for employees as managed by a different team
Essential User Permits (Contractors)	At the Request of Management
Tree Management – Follow Up	At the Request of BHP Management

Table 3 - Projects Removed from Original plan

Audit	Reason
SEN (Schools Thematic Work)	Have had to respond to issues in a number of schools and undertaken other reactive work which has put pressure on resources. This audit area will be included in the 2017/18 audit plan.
IT Disaster Recovery	High Risk Area now planned for 2017/18
Data Protection (BHP)	To be carried out in 2017/18 as part of a wider IT Governance audit for the Council and BHP

Table 4 – Delivery Status as at 28 February 2017

Delivery Status	
Total number of reports to be delivered in current plan	63
Number of draft/final reports/certifications issued to date	35
% of reports issued to date	56%

3.6 Members will note that progress to date on the 2016/17 internal audit plan is currently below the profiled target at the end of February. Allocation of audits has been reviewed and redistributed with PwC taking on an audit allocated to the in house team and 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. All the remaining audits are currently allocated and there are sufficient resource days available to complete the fieldwork. It is envisaged that some reports will not be finalised until April. It is planned that all reports will be finalised by the end of April.

4.1. Follow Up of 2015/16 Audit Recommendations

4.2. 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.

4.3. 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.

4.4. Of the 105 Priority 1 and 2 recommendations arising from 2015/16 audits and due to be implemented by 28 February 2017, 99 had either been fully or partly implemented 13 had yet to be implemented and 3 were no longer applicable due to changes within the relevant service. Table 5 sets out the summary.

Table 5 – Status of 2015/16 Priority 1 and 2 Recommendations

Priority	Total	Imp	Part	Not Implemented	N/A	Status Un
Priority 1	14	11	0	0	3	0
Priority 2	101	82	6	13	0	0
Total	115	93	6	13	3	0

Imp = Implemented

Part = Partly Implemented

Not = Not Implemented

N/A = Not due for implementation

Un = Status Unknown

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 6 below:

Table 6– Internal Fraud 2016/17 (Q3)

Internal	16/17 Q3	15/16 Q3	16/17 Q2	15/16 Q2	16/17 Q1	15/16 Q1	15/16 Full Year
Open Cases b/fwd	15	23	22	33	22	11	21
New Referrals	8	5	4	5	10	10	42
Closed Cases	5	7	11	15	10	10	31
Fraud / Irregularity identified (summarised below)	1	0	4	5	2	7	9
Dismissal	0	0	1	2	0	0	3
Resignation/ Officer Left	0	0	0	2	1	2	5
Warning	0	0	1	1	0	5	1
Other positive outcome (e.g. system Improvement, Overpayment recovered)	1	N/A	2	N/A	1	N/A	
Open cases carried fwd	18	21	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.** The internal case where irregularity was found, relates to a failure to declare correct benefit circumstances. The investigation found wrongdoing but also failure in procedures and it was agreed for management to resolve via an informal warning.
- 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
- 5.5.** Allegations of financial irregularities within schools remain a concern, with current cases being investigated at three schools.
- 5.6.** It should also be noted that significant staff time was spent in quarters one and two on investigating allegations of housing corruption, some three months of full time work for six officers was spent in analysing particular allocations decisions and vast swathes of data on associated housing allocation matters. The matters were inconclusive but the risk remains high and further proactive work is being undertaken.

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 7 below.

Table 7 – Housing Fraud 2016/17

Housing	16/17 Q3	15/16 Q3	16/17 Q2	15/16 Q2	16/17 Q1	15/16 Full Year
Open cases b/fwd	139	188	160	182	121	174
New Referrals	54	13	90	118	140	250
Closed Cases	78	27	111	112	101	314
Fraud Found	9	23	13	17	13	73
Recovered Properties	8	21	11	13	10	63
Applications Refused	0	0	NIL	1	0	2
Property Size Reduced (Rehousing)	0	2	2	2	1	5
Home Loss Payment recovered	NIL	NIL	NIL	NIL	0	0
Right to Buy	1	0	NIL	1	2	3
Value of properties recovered* (000s)	£144	£378	£198	£234	£180	£1,134
Value of Right to Buy Discount Prevented** (000s)	£104	NIL	NIL	£104	£207	£90
Value of Property Size Reduced (000s)	NIL	£36	£36	£36	£18	£282
Open cases carried c/f	115	174	139	188	160	121
Cases with Legal for Possession / Prosecution	26	18	34	22	33	18

Notional value of recovered properties is £18,000

** Actual amount of discount stopped

- 6.2.** Housing Fraud figures are below where we would expect but anticipate meeting the annual target of 51. Currently 35 cases have been identified as fraud compared with 61 at the same point last year. These case include all fraud relating to social housing e.g. Right to Buy and property size reductions. Other challenges have occurred which have impacted on the normal referral stream, these being an unprecedented level of change, rationalisation and business re-engineering at some of the larger housing associations. Key contacts at these organisations have either left, taken redundancy or been moved to other areas of operations. Some housing associations have reduced their referral stream to almost zero and are in the process of considering how to deal with housing fraud going forward. Challenges have also been encountered at BHP, where supervisory staff changes, restructures and changes have also affected the referral stream.
- 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) / Profit Orders rather than just recovery of the tenancy. To date, 2 cases were successfully prosecuted under the Prevention of Social Housing Fraud Act (PoSHFA) in Q3, compared with NIL at this same point last year. The Profit Orders granted in these cases totaled £25,239.
- 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 proactive anti-fraud approach. The new arrangements have been approved and are now being implemented since January 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 8 – Other External Fraud 2016/17

External Fraud	16/17 Q3	15/16 Q3	16/17 Q2	15/16 Q2	16/17 Q1	15/16 Full Year
Open cases b/fwd	72	63	106	12	57	56
New Referrals	30	15	30	66	83	99
Closed Cases	89	24	64	15	34	62
Fraud / Irregularity	10	1	3	5	4	10
Prosecution	0	0	1	NIL	0	0
Warning / Caution	4	1	1	2	1	3
Overpayment / Savings identified	5	0	NIL	3	1	7
Open cases carried c/f	13	24	72	63	106	5

- 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 in referrals of this type. One NRPF case was successfully investigated in Q3 with assistance being refused and a saving of £5,074.32 achieved.

7.5. The team also identified system control weaknesses 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 warnings were issued against the offenders.

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. 2016/17 Internal Audit Plan

12. Contact Officer Details

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