



**Audit Advisory Committee**  
10 January 2018

**Report from the Chief Finance Officer**

**Internal Audit & Counter Fraud Progress Report for the Period 1 September – 31 December 2017**

<b>Wards Affected:</b>	N/A
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
<b>No. of Appendices:</b>	One: <ul style="list-style-type: none"> <li>• 2<sup>nd</sup> Internal Audit &amp; Counter Fraud Progress Report – 2017/18</li> </ul>
<b>Background Papers:</b>	None
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**1. Summary**

- 1.1 This report provides an update on the progress against the internal audit plan for the period 1 September 2017 to 31 December 2017. The appendix to the report also summarises those audits from the 2017/18 plan which have been finalised since the last meeting of the Committee. The report also provides a summary of counter fraud work for the period.

**2. Recommendations**

- 2.1. That the Audit Advisory Committee notes the progress made in delivering the 2017/18 Internal Audit Plan and the counter fraud work in the period of the report.

### 3. Detail

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

- There were initially 62 audit projects included within the agreed 2017/18 plan (excluding follow up and advisory work). Work has commenced on 16 of these. See Table 5 for list of audits in progress. As previously reported, a number of reviews have been amalgamated, deferred and in some cases deleted. A final reconciliation and full details of movements will be provided in the final progress report for 2017/18.
- Seven audits have been added to the plan. See table 3 below for the list of audits added to the plan.
- 12 audits from the 2017/18 plan have been completed to draft or final stage:
  - GDPR;
  - Pension Fund Administration;
  - IT disaster Recovery;
  - Contract Management R&ES;
  - Leasehold Management;
  - Continuous Audit Monitoring (CAM) Phase 1;
  - HR Contract Administration;
  - Payroll;
  - BACS Payments;
  - Asset Management;
  - Capital Programme, and
  - Introductory Tenancies.

A Rent Arrears Management review was also finalised and issued in this period from the 2016/17 plan with a 'reasonable assurance' outcome

- Nine of these audits have an assurance opinion associated with them. Three have reasonable assurance (Leasehold Management, CAM, and BACS) and three have limited assurance (Payroll, Pensions Administration and IT Disaster Recovery). The remaining three relate to consultancy work which do not have an assurance rating attached. The three remaining reviews are at a draft report stage that has not yet been formally discussed with management (Asset Management, Capital Programme, and Introductory Tenancies).

**Table 1 – Summary of Audits Completed Since last audit report**

Total Number of Audits Completed	Substantial 	Reasonable 	Limited 	None 	Non Assurance	Total
<b>Finals</b>	-	3	2	-	3	<b>8</b>
<b>Draft</b>	-	-	1	-	-	<b>1</b>
<b>Total</b>	-	<b>3</b>	<b>3</b>	-	<b>3</b>	<b>9</b>

**Table 2 – Projects Added to the Plan**

Audit	Reason
Treasury Management	Transferred from 2016/17 plan
Leasehold Management and Service Charges	Transferred from 2016/17 plan
Integrated Asset Management (BHP) – Follow Up	Transferred from 2016/17 plan
Payroll	Full audit included
HR Contract Administration	Audit included at request of management
Contract Management structure R&ES	Audit included at request of management
Safeguarding - Adults	Replacement for Quality of Care audit in original plan

**Table 3 – Audits in Progress**

Audit
Changes to PCI Requirements – fieldwork
IT Security and Access Management – fieldwork
Transport Shared Service – scoped and planned for Q4

**Table 4 – Audits in Progress for Investing for Brent (I4B)**

<b>Audit</b>
Governance, Risk Management and Financial Management
Benefits Realisation, Management Information and Reporting
Financial Model Review
Fraud Risk Assessment

**Table 5 – Delivery Status as at 31 August 2016**

<b>Delivery Status</b>	
Total number of reports to be delivered in current plan	38 (revised)
Number of draft/final reports/certifications issued to date	16
% of reports issued to date	42%

- 3.2. There has been a number of amendments to the initially agreed audit plan. Audit owners have been consulted on all changes. Requests for additional work have been accommodated. The service has completed a restructure and is now in the process of recruiting to a number of posts in both the Internal Audit and Investigations teams.

#### **Follow Up of 2016/17 Audit Recommendations**

- 3.3 The Public Sector Internal Audit Standards requires the Head of Internal Audit and Investigations 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.

Follow up work of 2016/17 audits will be undertaken in quarter four of 2017/18.

#### **Public Sector Internal Audit Standards**

- 3.5. The Head of Audit and Investigations undertook a self-assessment of the Public Sector Internal Audit Standards (PSIAS) against their Quality Assurance and Improvement Plan checklist. The results and action plan were the subject of a separate report to the Committee. An update on progress against the plan will be included in the next progress report.
- 3.7. In addition, the standard also requires the internal audit function to be reviewed by an external organization at least every five years. The Internal Audit function has nominated itself for a peer review which has been requested for spring 2018.

## Counter Fraud Progress Report

### **Internal Fraud 2017/18**

- 3.8 There has been six new referrals received during Q2 and a total of 14 referrals this year. This includes protected whistleblowing disclosures and a range of case types. It does not include related proactive work or review of the National Fraud Initiative (NFI) data matches.
- 3.9 The two cases where fraud/irregularity was identified involved an undisclosed conflict of interest and a breach of financial regulations (school case). In each case, appropriate remedial action was taken by management.

**Table 6**

Internal Fraud	2017/18 Q2	2016/17 Q2	2017/18 Q1	2016/17 Q1	2016/17 (year)	2015/16 (year)
Open Cases b/f	16	22	16	22	22	21
New Referrals	6	4	8	10	28	42
Closed Cases	10	11	8	10	34	31
Open cases carried c/f	12	15	16	22	16	22
Fraud / Irregularity identified	2	4	2	2	12	9
Dismissal	0	1	0	0	1	3
Resignation	0	0	0	1	2	5
Warning	0	1	1	0	1	1
Other outcome (see below)	2	2	1	1	8	4

- 3.10 A proactive exercise by the Investigations team relating to conflicts of interest was completed in Q2 and identified a system weakness in the Declaration of Interest (DOI) procedure. This identified staff (including agency staff) in key decision-making positions who had not updated their record of interests as specified in the DOI policy and, in some cases, a DOI was not held. These findings have been reinforced whilst reviewing related NFI data matching reports which often show no up-to-date DOI is held albeit for lower grade officers. No fraud has been identified as yet in these cases - however, there is a clear risk to the Council if this is not properly mitigated. This area will be included in the 2018/19 Internal Audit plan (alongside a review of our Gifts and Hospitality arrangements).

### **Anti-Fraud Policies**

- 3.11 A recent refresh of the Anti-Fraud and Bribery Policy and the Whistleblowing Policy along with the introduction of a new Anti-Money Laundering Policy was approved by the Audit Advisory Committee on 5 December 2017. The Investigations team will prepare a publicity plan to promote these policies throughout the Council and amongst all stakeholders to increase awareness, generate better quality referrals and raise the

team's profile.

## Tenancy and Social Housing Fraud

3.12 The recovery of social housing properties from fraud investigations has a positive impact upon the temporary accommodation budget and remains a high priority risk area to the Council. The Audit Commission has estimated that the average national value of each recovered tenancy is £18,000\*. A more realistic value is £93,000 as reported by the Cabinet Office (National Fraud Initiative 2016). These are notional values and for consistency in reporting, we use the lesser value. The counter fraud activity up to the second quarter of the year is summarised in the table below:

**Table 7 – Tenancy and Social Housing Fraud 2017/18**

Housing Fraud	2017/18 Q2	2016/17 Q2	2017/18 Q1	2016/17 Q1	2016/17 (year)	2015/16 (year)
Open cases b/f	76	160	82	121	121	174
New Referrals	36	90	27	140	332	250
Closed Cases	51	111	33	101	371	314
Open cases carried c/f	61	139	76	160	82	121
Fraud Found	7	13	6	13	52	73
Recovered Properties	7	11	5	10	44	63
Applications Refused	NIL	NIL	NIL	NIL	NIL	2
Property Size Reduced	NIL	2	1	1	4	5
Right To Buy	NIL	NIL	NIL	2	4	3
Value of properties recovered*	£126,000	£198,000	£90,000	£180,000	£792,000	£1,134,000
Value of property size reduction*	NIL	£36,000	£18,000	£18,000	£72,000	£90,000
Value of Right to Buy Discount Prevented**	NIL	NIL	NIL	£207,800	£416,000	£282,000
Cases with Legal for Possession/Prosecution	19	37	25	33	26	18

\* Notional value of recovered properties used for reporting is £18,000

\*\* Actual amount of RTB discount stopped

3.13 A total of 13 properties with a notional value of £234,000 were recovered as a result of fraud/irregularity up to the end of Q2. This is a reduction of 50% (13) compared to the same period last year. It should be noted however, that to the end of November 2017, a total of 30 recoveries have been completed, including one Right to Buy with an actual discount saving of £103,900. This is comparable to last year's performance in this period. We believe, however, there may a temporary dip in recoveries in the final quarter due to a slow-down in referrals as well as the temporary disruption of a

service restructure.

- 3.14 The total referrals for Q1 and Q2 are lower compared with the same period as last year. However, referral quality has increased and the fraud detection rate of closed cases has remained constant. Higher referrals in the previous two years was a result of proactive work relating to perceived risk factors such as tenants not reporting repairs for a long period. This type of rationale has resulted in a low detection rate despite apparently higher referrals. This approach to proactive work has been revised - the focus in future will be on intelligence-led proactive exercises with improved collaboration with the Tenancy and other relevant housing teams.
- 3.15 One notable case was a Housing Association tenant who was prosecuted in Q2. The tenant had pleaded guilty to section 2(1) of the Prevention of Social Housing Fraud 2013 for unlawful subletting between 15 October 2013 and 22nd March 2017. The tenant was fined £500 with a judgement made for an Unlawful Profit Order of £1,170.
- 3.16 There have been no housing applications stopped to date as was the case last year. The Housing Needs Service (HNS) do refer a small number cases to the Investigations team but they rely on us more for assistance with specific enquiries. There is an emphasis within HNS on verification at the point of contact when the need for prompt decisions is a factor when considering a fraud referral. The Investigations team will work with HNS to review this process.
- 3.17 In addition to reporting successful tenancy recoveries, the Investigations team undertake detailed value add work even when a tenancy is not recovered. In most of these cases where no further action is taken, the team will often complete a tenancy verification including confirmation of the entire household composition. This will be held on the tenancy file and contributes towards the Tenancy team's objectives. By completing these verifications it serves to prevent fraudulent tenancy succession claims where an applicant may dishonestly claim to reside at a property. Since July 2017 to November 2017, a total of 26 cases have been closed with no fraud/irregularity and a tenancy verification completed.

### **External Fraud**

- 3.18 'External fraud' includes all other external fraud/irregularity that affects the council. This will include (but is not limited to) fraud cases involving; Blue Badge, Direct Payments, Council Tax, Business Rates, insurance, finance, concessionary travel and grant applications. The counter fraud activity up to the second quarter of the year is summarised in the table below:

**Table 8 – External Fraud 2017/18**

<b>External Fraud</b>	<b>2017/18 Q2</b>	<b>2016/17 Q2</b>	<b>2017/18 Q1</b>	<b>2016/17 Q1</b>	<b>2016/17 (year)</b>	<b>2015/16 (year)</b>
Open cases b/f	13	106	14	57	57	20
New Referrals	29	30	14	83	161	99

Closed Cases	20	64	15	34	204	62
Open cases carried c/f	22	72	13	106	14	57
Fraud / Irregularity	2	3	4	4	22	10
Prosecution	NIL*	1	NIL	NIL	2	NIL
Warning / Caution	NIL	1	NIL	1	6	3
Overpayment / Saving identified	2	NIL	3	1	7	7

- 3.19 This type of referrals has increased since Q1. There are two main reasons for this: (1) multiple Freedom Pass fraud and (2) use of an online fraud reporting tool and increased profile on the internet. Although, referrals were higher in last year's Q1, this was due to a specific proactive on the Council Tax Reduction Scheme with referrals being generated within the team.
- 3.20 Since Q1, the team has led on an organised Freedom Pass fraud investigation against several councils in London with over 100 fraudulent applications identified to date. The team has so far identified 17 fraudulent Brent applications. The main subject of the investigation has been identified, arrested and released pending further enquiries. The investigation is in collaboration with London Councils, Transport for London and the Police but is being led by Brent Council. The fraud has been prevalent since September 2016 and specifically targeted the 'Partially Sighted' entitlement category using false supporting documentation. This has occurred due to weak system controls with verification of supporting documentation, which was addressed with the service area at an early stage. The potential value of a Freedom Pass is approximately £6,000 per year and the cost to councils is significantly more due to the charging structure with London Councils.
- 3.21 Although the table shows NIL prosecutions in this category, an insurance case was prosecuted in Q1 but due to an administration error it was not recorded until Q3 on the case management system. The defendant pleaded guilty to section 2 of the Fraud Act for attempting to defraud the council with a false damage claim to their vehicle. In addition to the claim being repudiated, the defendant was fined £1,800 and ordered to pay costs/surcharge of £870.
- 3.22 A long-standing school case involving an ex-employee that was originally referred to the Police in 2013, was closed in Q2 due to inability to progress a criminal prosecution. The individual had resigned in February 2013 pending a disciplinary investigation into alleged theft of school funds. Evidence of irregular cheque expenditure was later uncovered to show the ex-employee had paid £38,108 to herself and her daughter between 2008/09 and 2011/12. The cheques were drawn against both the school's official budget share account and its private fund due to significant lack of system controls.

## Proactive Counter Fraud activity

3.23 Two proactive exercises were closed in Q2:

- **Conflicts of Interest** – identified inadequate system controls and, although no fraud was identified, it presents a clear risk and will now form part of next year's internal audit plan.
- **Blue Badge** – the latest drive was undertaken in July 2017 and resulted in good publicity. There were six parking fines issues for Blue Badge related offences. One vehicle was removed, four badges were retained and 12 parking fines were issued for other parking offences.

3.24 There are a number of proactive exercises proposed from Q2/3 onwards:

- **Direct Payments** (Q3) – this is underway and involves a review of four cases provided by the client where fraud/irregularity has been suspected. The review includes checks on the decision making process and monitoring of expenditure. To date, no evidence of fraud has been identified and the proactive is expected to be completed in January 2017.
- **Business Rates** in high risk industrial areas (Q2) – this proactive has not commenced as further preparation work needs to be done to ensure operational effectiveness. An internal audit was conducted earlier this year and further review of the findings and recommendations will be undertaken to consider whether this proactive is likely to be effective.
- **Council Tax** - students (Q2) – this proactive was considered for Q2 but the data supplied is unclear and will need further preparatory work before taking forward. One consideration is to replace this with a review of new NFI data matches that will be available in January/February 2018. The reports generated will cover both student and Single Persons Discount irregularities from recent data submissions in December 2017 of both Council Tax and Electoral Roll. This should provide the most accurate data to form an effective proactive exercise and will commence in Q4.
- **Procurement** (Q3) – further preparation into this proposed proactive is required to ensure its effectiveness. The earliest start date would be in Q4.
- **Blue Badge** – one day per month (Q2/3/4) – this proactive has been cancelled for a number of reasons. It was proposed to do this in addition to our quarterly proactive but due to resources it would not be feasible. In addition, the Investigations team has been working with the parking enforcement teams since Q1 to provide training with Blue Badge enforcement, inspection/seizure of badges and retention of evidence. We have also assisted the parking enforcement team to develop an intelligence database to help them identify persistence misuse, respond to customer complaints of misuse and target hotspots.
- **Housing** – visiting drive to a high risk blocks / estates (Q3/4) – initial preparation for this proactive is underway and will be based on known risk areas for unlawful subletting, supported by good intelligence from both the Tenancy team and our sources. It is anticipated that this will be a collaborative approach with the Tenancy team.

3.25 The **National Fraud Initiative** (NFI) 2016/17 data matching exercise is now underway following data submission in October 2016 and matches generated since January 2017. There are a total of 20,463 data matches (8,036 are recommended) across the

full range of data sets that include Payroll, Pensions, Finance, Creditors, Housing, Benefits, Direct Payments, Insurance, Parking Permits and concessionary travel. All NFI Key Reports have either been reviewed or is under review. To the end of November 2017, the overall summary of NFI work is as follows:

- Matches processed/reviewed 1033 (to Q1 was 854)
- Investigating 16 (up to Q1 was 52)
- Cleared 684 (up to Q1 was 507)
- Fraud/Error identified 319 (no change since Q1)
- Overpayment/Saving identified £168,177.44 (no change since Q1)

Notable results from NFI reports reviewed is as follows:

- Blue Badge data to deceased persons; 447 matches reviewed and 304 fraud/errors found resulting in live badges being cancelled. Notional saving of £152,000 recorded (£500 for each badge cancelled).
- Brent Pensions to deceased persons; 67 matches reviewed with 12 fraud/error cases found resulting in pensions being terminated and £9,077 being recovered. One case remains under investigation.
- Insurance multiple claims within Brent; one case identified with a reserve of £7,100 which has been cancelled/withdrawn.

3.26 This year we have introduced an enhanced risk scoring system for all types of referrals to complement our existing and effective intelligence checking capability. This has helped to screen referrals without veracity and focus resources on higher priority cases.

3.27 In June 2017, the Investigation team introduced an online fraud reporting tool for both the internet and intranet (links below), which allows informants to provide information anonymously or supply their contact details. Current figures suggest the system is effective with an increase of online referrals from the public and a slight decrease in telephone referrals as set out in the table below.

Period	Online referrals	Hotline referrals
Q1	15	5
Q2	24	2
Oct / Nov	25	3

External: <https://www.brent.gov.uk/firmstep/forms/report-fraud/>

Internal: <https://internal.brent.gov.uk/firmstep-intranet-forms/fraud-affecting-the-brent-council/>

3.28 At the end of Q2 the Investigations team introduced a **Simple Caution** process as a disposal method for suitable first-time and low-level criminal offences as part of our sanction authorisation procedure. This acts like a Police caution and can be taken into consideration for future offences. This process falls within the scope of the Anti-Fraud and Bribery Policy.

**4.0 Financial Implications**

4.1 None. There are no specific financial implications associated with noting this report.

**5.0 Legal Implications**

5.1 None.

**6.0 Equality Implications**

6.1 None.

**7.0 Consultation with Ward Members and Stakeholders**

7.1 None.

**8.0 Human Resources/Property Implications (if appropriate)**

8.1 None.

**Report sign off:**

**CONRAD HALL**  
Chief Finance Officer