



Audit Committee
22 February 2012

**Report from the Director of Finance
and Corporate Services**

For Information

Wards Affected:
ALL

Report Title: 3rd Internal Audit Progress Report 2011/12

1. Summary

- 1.1. This report sets out a summary of the work of Internal Audit for the period from 1st April 2011 to 31st January 2012 and the Investigation Team for the period 1st April 2011 to 31st December 2011. The attached report provides details of progress against the internal audit plan together with assurance ratings and priority 1 recommendations for limited and nil assurance reports for those audits for which final reports have been issued since December 2011.

2. Recommendations

- 2.1. That the Audit Committee notes the progress made in achieving the 2011/12 Internal Audit Plan and the review of fraud work.

3. Detail

Audit

- 3.1. The Internal Audit Plan for 2011/12¹ comprises 1,200 days, of which 905 are allocated to Deloitte Touche Public Sector Internal Audit Limited, and 295 to the in-house team.
- 3.2. At the end of January 2012, a total of 857 days had been delivered against the overall Plan, made up of 667 Deloitte PSIA days and 190 in-house days. This represents 71% of the Plan and is a slight improvement on the previous year when 63% of the plan had been achieved at the same stage in 2011.
- 3.3. A number of systems audits have been completed since the last report to Committee and others particularly the audit of key financial systems including work on Oracle Financials (accounts payable accounts receivable & general ledger); Housing & Council Tax Benefits) are in the process of being completed.

- 3.4. A number of planned audits been removed from the plan due to delays in the implementation of the projects to which they relate. Examples of these include the planned review of libraries, transformation of support functions in Environment and Neighbourhood Services, partnership working with external housing bodies and partnership working with the NHS. Other audits were identified to replace these projects and the number of days allocated for BHP was increased to take account of previously unplanned work.
- 3.5. Computer audit work has also progressed. Since the last committee a number of audits have been finalised including I Casework and follow-up work on Programme and Project Management.
- 3.6. The final key area of work is in relation to schools. This forms a significant part of annual coverage. Sixteen primary schools audits were initially included in the 2011/12 plan and an additional six have since been scheduled to take place in the last quarter. These audits are currently in progress.
- 3.7. This is the first report in which an audit plan tracker has been included. This shows the status of all projects on the original audit plan. The tracker is shown below:

Audit	Planned Days	Actual Days	Progress	Assurance	Priority			Issue date
					1	2	3	
Corporate/Cross Cutting								
Business Continuity Planning	10	9	Work Completed					
Prepaid Cards (Service Users)	15	15	Final Report	Substantial	1	4	1	19/01/2012
Prepaid Cards (Staff)	10	10	Final Report	Limited	3	2	0	19/01/2012
Financial Planning	15	14	Work Completed					
Change Management / Consultation and Communication	10	0	Deferred into 2012/13 plan ¹					
Absence Management	10	0	February/March 2012					
Oracle Security (from Cont. Days) ²		17	Draft Report	N/A				
Conflicts of Interests (All Officers) ³	10	20	9 Draft Report in Progress					
Corporate/Cross Cutting Total	80	85						

¹ To be replaced with a work on Community Engagement as part of 2012/13 plan.

² Requested by management.

³ Increased to 20 days due to having to cover eight departments.

Finance and Corporate Services (FCS)								
Council Tax	15	12	Fieldwork Completed					
National Non Domestic Rates (NDR)	15	11	Fieldwork completed					
Housing & Council Tax Benefits	20	20	Draft Report	Substantial	4	4	3	25/01/2012
Treasury Management	10	0	To start in February 2012					
Payroll	15	15	Final Report	Substantial	2	3	0	10/01/2012
Accounts Payable	15	12	Draft Report in Progress					
Accounts Receivable	15	10	Work In Progress					
General Ledger	15	10	Work In Progress					
Pension Fund Investment	8	2	Work In Progress					
FCS Total	128	92						
Children & Families								
School Audits Primary/Junior Schools	150	Total 235						
Brentfield			To be booked. Work postponed due to Asbestos.					
North West London Jewish ⁴		14	Draft Report -	Limited	19	13	0	09/12/2011
Wykeham		0	Work In Progress					
Mitchell Brook		13	Final Report	Limited	16	16	0	11/11/2011
Curzon Crescent ⁵		20	Final Report	Nil	22	16	0	22/12/2011
Gladstone Park		10	Final Report	Substantial	4	2	0	09/12/2011
Uxendon Manor		10	Final Report	Substantial	1	3	0	30/06/2011
Islamia		0	To start in February 2012					
John Keble CE		10	Final Report	Limited	3	7	1	12/10/2011
Kensal Rise		10	Draft Report	Limited	6	6	1	24/10/2011
Kilburn Park Junior		10	Final Report	Substantial	2	8	0	23/11/2011
Lyon Park Infants		10	Final Report	Substantial	1	6	0	12/10/2011
Park Lane		10	Draft Report	Substantial	3	2	0	10/02/2012
Princess Frederica		10	Final Report	Limited	9	4	1	27/01/2012
St Mary's RC Infants		10	Final Report	Substantial	2	7	0	15/07/2011
Carlton Vale Infants		10	Draft Report ⁶	Substantial	3	5	1	14/12/2011
Marolees Junior ⁷		13	Final Report	Nil	13	24	1	17/01/2012
Mora		9	Work Completed					
Wembley Primary		0	To start on 05 March 2012					
Leopold		0	To start on 27 February 2012					
Salisbury		0	To start on 12 March 2012					
St Robert Southwell		0	To start on 14 February 2012					

⁴ Increased to 12 days to cover additional work required on Trust Account

⁵ Requested by the Headteacher. Special review in addition to the School programme due to major issues.

⁶ Revised Draft Report issued and this will be presented to the Governors at their February meeting.

⁷ Additional days due to major issues.

PRU (BETS)	10	10	Draft Report	Limited	5	10	0	03/02/2012
PRU (Stag Lane)	10	6	Draft Report in Progress					
PRU (Poplar Grove)	10	10	Draft Report	Limited	12	15	0	
PRU (Church lane)	10	0	Work In Progress					
Schools Thematic Reporting	8	0	To be completed at the end of March 2012					
Children Leaving Care	15	0	To start on 27 February 2012					
Out of School Support Services ⁸	10	3	See PRI (BETS)					
Curzon Crescent Major Works ⁹		20	Final Report	N/A				01/12/2011
Personalisation / Children's Social Care	15	0	Withdrawn ¹⁰					
Children & Families Total	238	218						
Environment & Neighbourhood (EN)								
Brent Transport Services	10	15	Draft Report	Limited	3	10	1	20/01/2012
CRC Energy Efficiency Scheme	15	15	Final Report	N/A		3		07/06/2011
Libraries	15	0	Withdrawn ¹¹					
Transformation	20	0	Deferred to 2012/13 plan ¹²					
Waste Management	15	15	Final Report	Substantial	0	5	0	26/01/2012
Corporate Health & Safety	10	0	Deferred to 2012/13 plan ¹³					
Land Charges	10	10	Final Report	Substantial	0	1	2	02/02/2012
EN Total	95	55						
Customer & Community Engagement								
Members' Expenses and Allowance	8	8	Final Report	Substantial	0	1	0	31/05/2011
Ward Working Grants	15	15	Final Report	Substantial	00	3	0	27/09/2011
Equality Impact Assessment	10	2	Work In Progress					
Customer & Community Engagement Total	28	25						
Housing and Community Care (HCC)¹⁴								
Financial Assessments of service users and recovering contribution	15	15	Final Report	Limited	3	3	0	18/01/2012
Safeguarding	15	2	To be undertaken in February/March 2012					

⁸ Days decreased as work is covered with PRU (BETS) audit

⁹ Requested by the new Headteacher. Post contract review and lessons learnt work completed for major works project.

¹⁰ This was included on the basis that there would be a One Council review on personalisation in children social care. However the review did not include this.

¹¹ Withdrawn from the plan due to judicial review and the delay in re-structuring the libraries in Brent.

¹² Deferred due to restructure.

¹³ Deferred due to restructure and the service also reprioritising and drafting a new Service Level Agreements. This audit will be planned under Regeneration and Major Project.

¹⁴ Housing have now moved to Regeneration and Major Project and the Service have been renamed as Adult Social Service. However, the structure has been kept as per the original Internal Audit plan for 2011/12.

Relationship Management with External Housing Bodies	10	0	To be deferred into 2012/13 plan ¹⁵					
Partnership working with NHS	10	0	To be deferred into 2012/13 plan ¹⁶					
Framework-i Financial Module ¹⁷	10	3	Final Report	See IT Framework-i Financial Module				
HCC Total	60	20						
Legal and Procurement								
Procurement (Compliance with the Blue Book)	15	0	To be deferred into 2012/13 plan ¹⁸					
Conflicts of Interests (Members)	8	12	Final Report	Substantial	2	6	1	12/12/2011
Legal and Procurement Total	23	12						
Regeneration and Major Project (RMP)								
Project Management Framework (contract audit)	5	5	Final Report	N/A	0	3	0	31/08/2011
School Health & Safety	10	10	Final Report	Limited	1	3	1	08/02/2012
Capital Projects (contract audits)	30	3	Work in Progress					
Civic Centre Project	15	3	Work in Progress					
RMP Total	60	21						
Strategy, Partnership, and Improvement (SPI)								
Domestic Violence	10	9	Work Completed					
Brent Blue Print	10	0	To be deferred into 2012/13 plan ¹⁹					
Data Quality	10	1	To be undertaken in March 2012					
SPI Total	30	10						
Computer Audit								
Programme and Project Management Effectiveness	15	15	Final Report	Limited	1	5	0	28/11/2011
Resilience of Exchange/Outlook and E-mail archiving	10	10	Final Report	Substantial	0	5	2	13/01/2012
Resilience of Active Directory (AD) and Follow up from AD Risk Assessment	12	2	Work In Progress					
VDI Project - Audit presence	15	5	Ongoing					
IT Governance	10	2	Work In Progress					

¹⁵ Due to the delay in Act being passed and also with the other transformation taking place, we have agreed to defer to 2012/13.

¹⁶ Due to the delay in national wide decision making process.

¹⁷ Days reduced as the majority of the work was completed by IT audit.

¹⁸ The new Head of Procurement informed us that the Blue Book is out of date and will require reviewing before the work can be completed.

¹⁹ To be considered for coverage as part of Partnership audit in 2012/13

CAS follow up	10	2	Ongoing					
Framework i - Application ²⁰	10	12	Final Report	Limited	2	4	1	25/10/2011
Bankline Payments	10	10	Final Report	Substantial		2	2	28/11/2011
IDEAR - Pupil Management (Tribal Application)	10	10	Final Report	Substantial	0	5	0	03/02/2012
NonStopGov (iCaseWork)	10	10	Draft Report	Limited	1	8	2	08/02/2012
Software Licensing	10	10	Final Report	Substantial	0	3	3	01/12/2011
Axis Cash Receipting ²¹	10	0	Withdrawn					
IT Accuserv (Stock Module)		5	Work In Progress					
Computer Audit Total	132	93						
Others								
Risk Management - Attendance at DMTs including CMT	22	24	Work In Progress					
Risk Management - Production of Guidance notes	5	5	Completed					
Risk Management - Strategic Risk Register Preparation	5	10	Work In Progress					
Audit Plan for 2012/13 including Audit Needs Assessment	4	2	Work In Progress					
Annual Governance Statement 10/11	6	6	Completed					
Consultation, Communication and Reporting	55	40	On going					
Follow-Up	55	30	30/55 days delivered					
Contingency	81		70 days used up for various additional works, a total of 11 days to be used for miscellaneous audit planning/Annual Governance Statement 2011/12					
BHP								
Internal Audit Plan 2011/12	135	109	On going					
Total	1200	857						

Fraud

- 3.8. The primary responsibility for fraud prevention and detection across the council rests with managers. The Audit and Investigation team is responsible for the investigation of fraud, making recommendations for sanction and system repair, providing prevention advice and conducting proactive fraud detection exercises.
- 3.9. Fraud work can be split between internal i.e. committed by staff against the authority, and external i.e. committed by third parties against the authority. The latter can be further split into two major divisions: Housing Benefit and Housing Tenancy Fraud. Other types of external fraud include false applications for social

²⁰ The number of days increased due to the extended coverage requested by management.

²¹ This has been withdrawn to accommodate more urgent work on Accuserv Stock Module requested by management and to accommodate the two additional days required for Framework i – Application.

services support (direct payments), blue badge abuse and single person discounts.

- 3.10. On occasion frauds fall into more than one category, i.e. an officer working and claiming benefit; a housing tenant subletting their property and claiming benefit; false declaration of income for the purpose of claiming benefit and a renovation grant.
- 3.11. Going forward, statistical information about fraud is to be a regular feature of the internal audit progress report. To set this in context, some historical data has been included for each dataset.

Housing Benefit Fraud

- 3.12. The council administers housing benefit on behalf of the Department for Work and Pensions (DWP). The DWP require the council to have a fraud response and this is funded through the general administration grant (although different funding regimes have existed, previously, linked to performance). The council has had a discrete HB fraud investigation team since 1992.
- 3.13. The DWP monitor a number of performance indicators in relation to HB fraud although there are, currently, no national targets. Members will be aware of the DWP plans to introduce a Universal Credit (UC) to replace a range of benefits, including housing benefit, for new applications from October 2013, transitioning all existing claims by April 2017. The UC will be assessed and paid by the DWP. Current proposals are for council tax benefit to be excluded from UC with separate schemes established and administered by each local authority. These changes include the establishment of a Single Fraud Investigation Service (SFIS) which will have responsibility for the investigation of all Universal Credit fraud. How that service is to be delivered is yet to be determined although it is likely to be led by the DWP. There will be major implications for the council's housing benefit and council tax benefit delivery and fraud investigation functions. Once definitive plans are set out by the DWP, they will be the subject of a further report to this committee.
- 3.14. Due to the high volume of housing benefit fraud referrals, many have to be screened out without investigation. There is a process of case screening which considers the quality of evidence, likely value of overpayment and other factors. 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.
- 3.15. The sanctions available for HB fraud are: Overpayment recovery, a caution administered by the council, an administrative penalty of 30% of the overpayment and criminal prosecution. In recent years the Audit and Investigation team have prioritised high value fraud resulting in a higher proportion of prosecutions. These take longer to prepare than cautions and administrative penalties. This has resulted in fewer sanctions but higher value overpayments. Historical case load data and current performance is shown below:

HB Fraud	2007/08	2008/09	2009/10	2010/11	2011/12		
					Q1	Q2	Q3
Referrals	799	723	672	757	215	147	198
Closed	922	832	744	675	231	170	141
Screened Out	637	511	423	386	140	109	64
% dropped	69%	61%	57%	57%	61%	64%	45%
Investigated	285	321	321	290	91	61	77
Fraud Found	147	118	150	121	36	16	19
Hit Rate	52%	37%	47%	42%	40%	26%	25%
Caution	26	7	5	1	1	1	0
Admin Penalty	45	46	40	20	6	7	7
Prosecution	44	31	36	50	10	4	8
Total Sanctions	115	84	81	71	17	12	15
Summons Only	3	1	0	2	19	4	4
Overpayment Only	29	21	73	47	0	0	0

Table 1 – HB Fraud Caseload 2007 to 2012

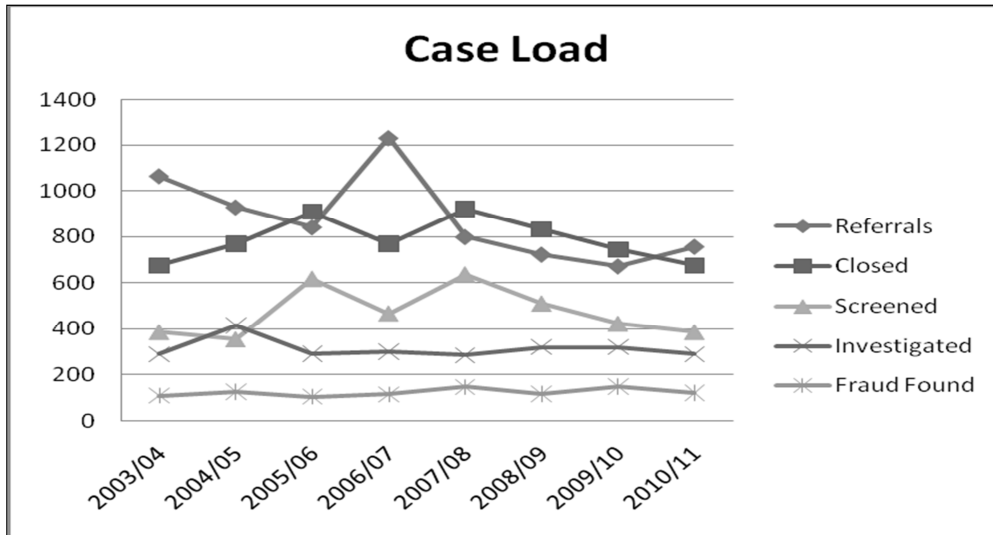


Chart 1 – HB Fraud Caseload 2003 to 2011

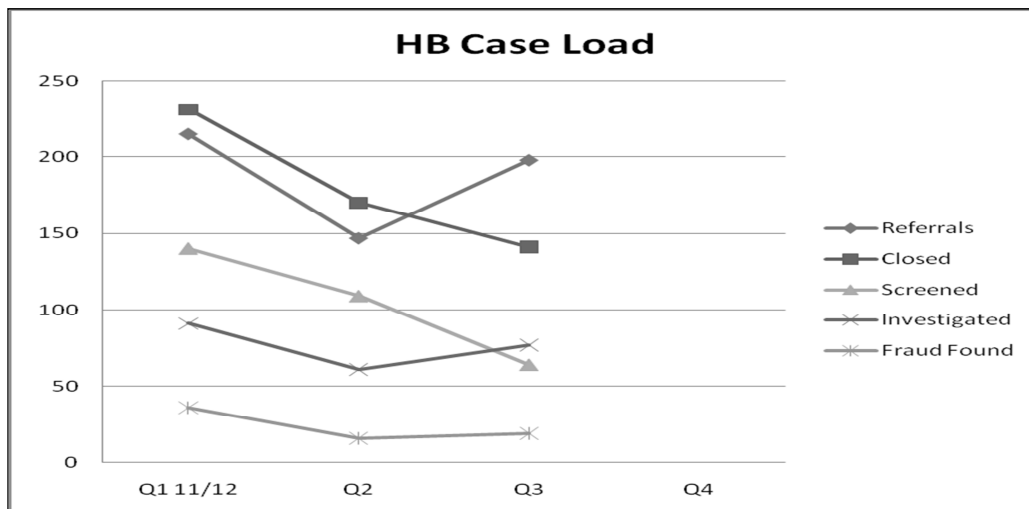


Chart 2 – HB Caseload 2011/12 by Quarter

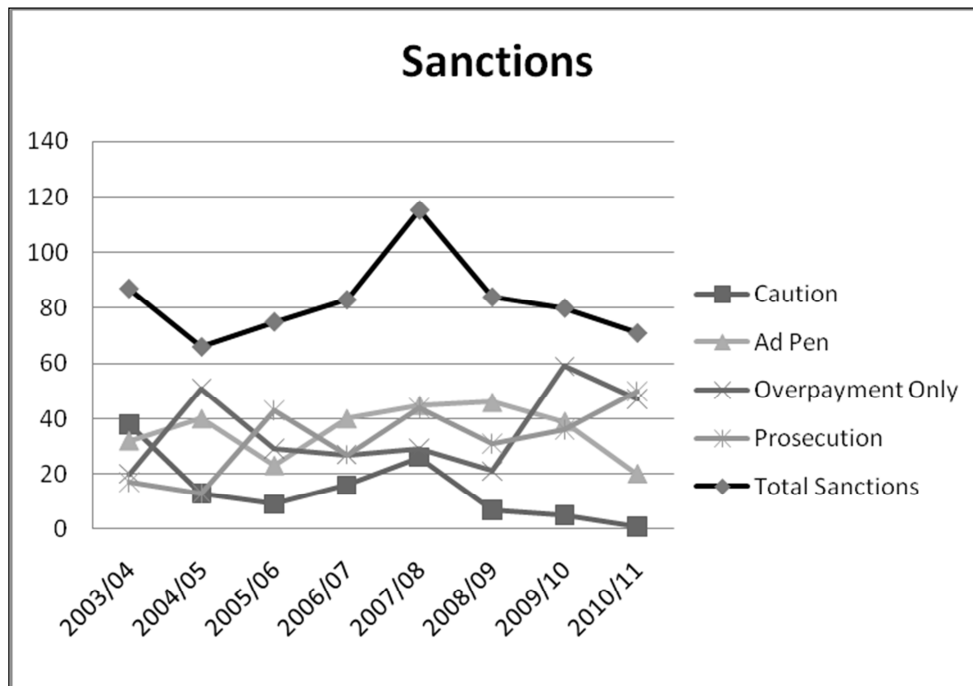


Chart 3 – HB Fraud Sanctions 2003 to 2011

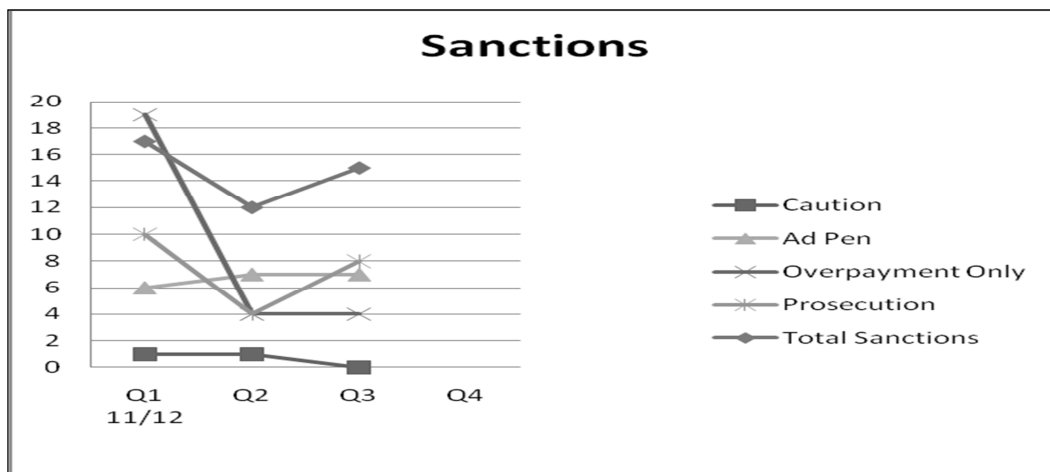


Chart 4 – HB Sanctions 2011/12 by Quarter

3.16. A key objective for the team over recent years has been to identify large scale fraud. This has, inevitably, resulted in a lower volume of cases being dealt with but a higher value of overpayment identification. Most HB claimants have other national benefits in payment such as job seekers allowance or income support and investigators will identify a range of overpaid benefits during enquiries. Historical overpayment figures are shown in table 2 and chart 3 below:

Fraudulent Overpayments by Benefit Type	04/05	05/06	06/07	07/08	08/09	09/10	10/11	2011/12		
	£	£	£	£	£	£	£	Q1 £	Q2 £	Q3 £
Housing Benefit	390,217	586,427	602,224	769,273	849,505	1,332,014	1,660,613	476,860	217,190	233,186
Council Tax Benefit	41,007	63,010	100,037	106,099	80,535	183,266	201,615	62,095	30,709	30,142
Income Support, Job Seekers Allowance, DLA, Other	114,808	251,525	370,636	433,825	371,713	411,909	660,546	210,677	34,342	88,042
Total	546,032	900,962	1,072,897	1,309,197	1,319,932	1,927,189	2,522,774	749,632	282,241	351,370

Table 2 – Fraud overpayment by benefit type and year

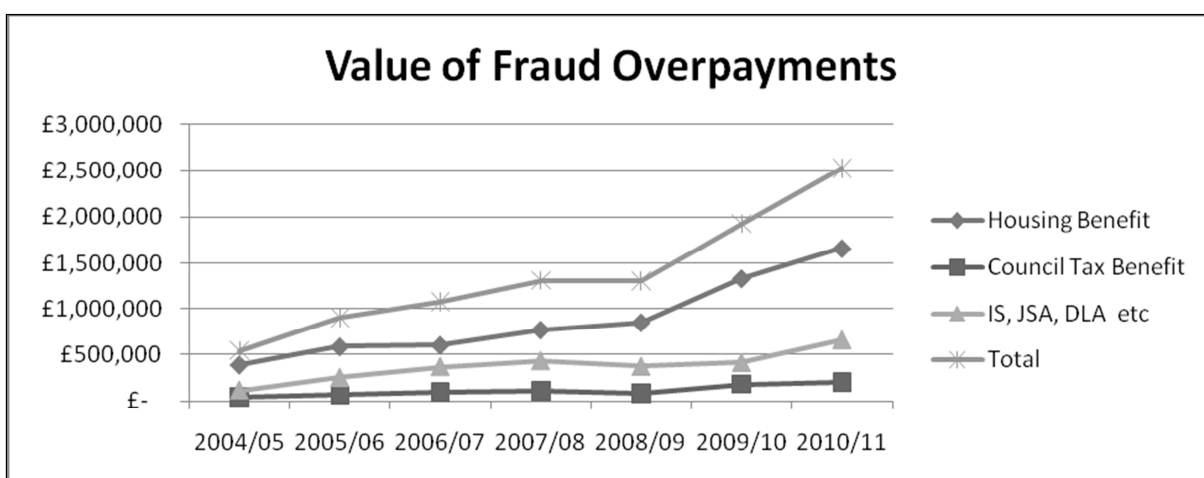


Chart 5 – Fraud overpayment by benefit type and year

- 3.17. A future committee report will include an analysis of overpayment recovery against fraud overpayments raised.

Social Housing Fraud

- 3.18. Social housing fraud occurs due to the sub-letting of council properties and false declaration of circumstances on housing and homeless applications. The council has taken tenancy fraud seriously for many years. Since 2000, investigation work by A&I has resulted in the recovery of more than 300 properties and prevented almost 90 inappropriate Right to Buy applications. The Audit Commission currently estimates that each unlawfully sub-let council property results, on average, in a financial loss of some £18,000 per annum.

- 3.19. Caseload information is shown below.

Housing Fraud	2007/08	2008/09	2009/10	2010/11	2011/12		
					Q1	Q2	Q3
Referrals	82	82	111	120	35	55	56
Closed	56	55	82	166	34	49	41
Screened Out	3	3	9	10	9	0	0
Investigated	53	52	73	155	25	49	41
Fraud Found	24	21	26	37	6	16	7
Recovered Property	23	21	26	34	6	16	7
RTB Stop	1	1	0	0	0	0	1
Application refused	1		0	2			

Table 3 – Housing Fraud Caseload 2007 to 2012

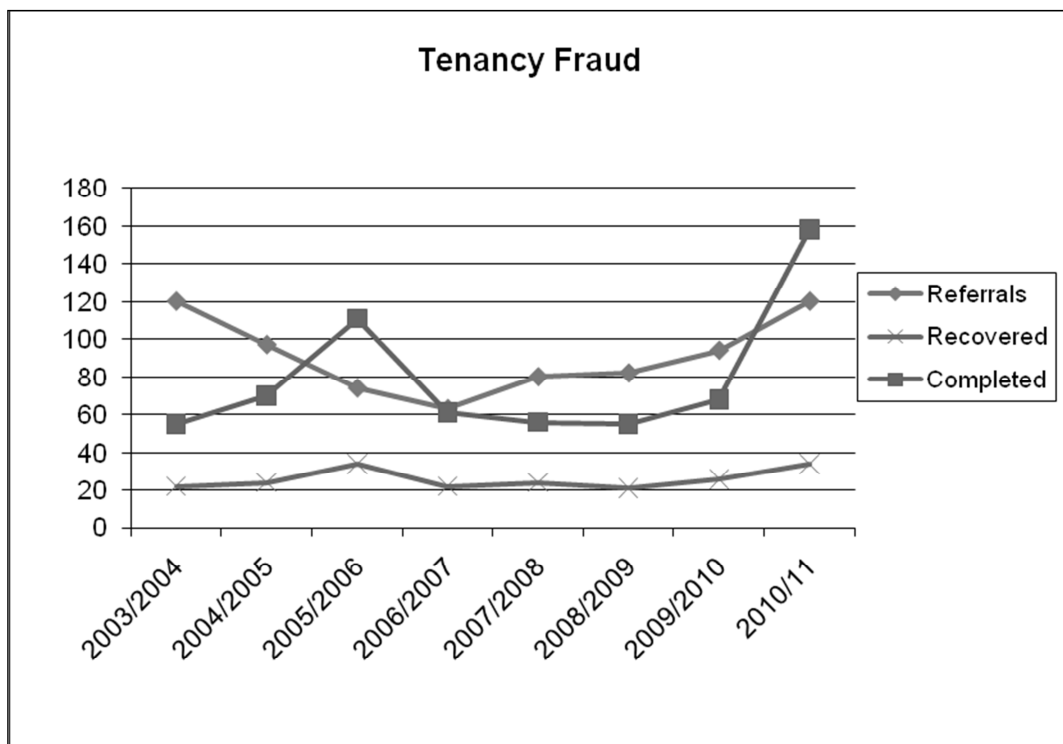


Chart 6 – Housing Fraud Caseload 2003 to 2011

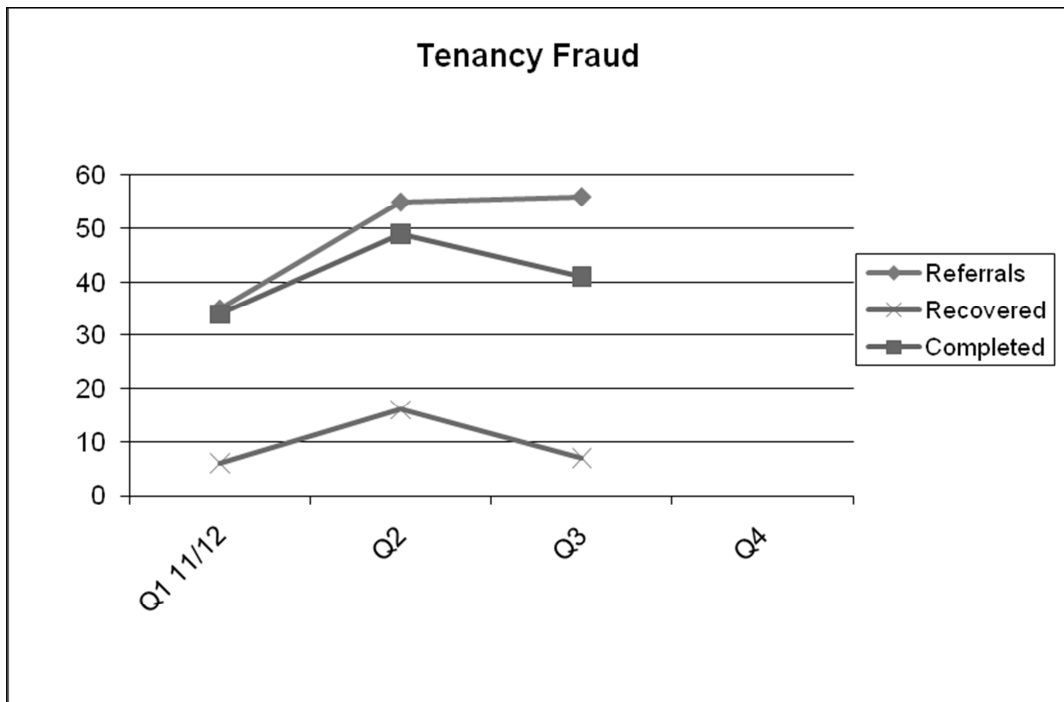


Chart 7 – Housing Caseload 2011/12 by Quarter

- 3.20. In 2010/11 the council received additional funding from central government of £50,000 to encourage the investigation of sub-letting within housing associations. The Audit and Investigation Team engaged with a number of housing associations in the borough and set up SLAs with five of the largest. A&I officers investigate referrals on behalf of the housing association who then take appropriate recovery action. This is beneficial in that the council maintains nomination rights to any properties recovered.
- 3.21. A further £100,000 was received by the council in 2011/12, of which £75,000 was allocated to A&I for general tenancy investigation work. As a result, two additional staff were allocated to tenancy fraud work from HB fraud.

Blue Badge Fraud

- 3.22. This is a relatively new area of fraud, its profile has been raised by the Audit Commission's National Fraud Initiative (NFI) data match of Blue Badges issued to the DWP deceased list. Some publicity around this type of fraud has generated a number of additional referrals from the public, who appear to be concerned by abuse of the scheme.
- 3.23. This abuse takes a number of forms. The lowest level is misuse of a badge by a family member when the badge holder is not present. This abuse is dealt with by the parking enforcement team and is not covered in this report. More serious offences such as persistent misuse, false applications for a badge, forged or counterfeit badges or misuse by a council officer are dealt with by Audit and Investigations. However, the team has extremely limited resources to deal with this type of fraud and in 2010/11 moved to a more proactive method of detection. This involves exercises in various parts of the borough working in conjunction with the

Police, Parking Enforcement and Adult Social Care. Two exercises have been undertaken in 2011/12 resulting in 30 badges being seized and a number of warnings issued.

- 3.24. There have been 20 new reactive referrals in the first three quarters of 2011/12 within the more serious categories, such as persistent misuse, false applications for a badge, forged or counterfeit badges or misuse by a council officer. Misuse has been identified in 17 of 32 cases investigated. Most were dealt with by way of a warning letter from Older Peoples Services who issue the badges. Two members of staff were dismissed for misusing a badge and one received a written warning.

Internal Fraud

- 3.25. 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.

- 3.26. Historic data and current year statistics are shown in the tables and charts below:

					2011/12		
Internal	2007/08	2008/09	2009/10	2010/11	Q1	Q2	Q3
Referrals	45	26	51	53	8	16	15
Closed	43	34	28	51	14	15	1
Screened Out	6	3	3	3	0	0	0
Investigated	37	31	25	48	14	15	13
Fraud / Irregularity	17	11	16	23	7	5	8
Dismiss / Resign	12	9	14	21	7	5	6
Warning	2	0	0	2	0		2

Table 4 – Internal Fraud Caseload 2007/08 to 2011/12

- 3.27. This year, to date, there have been 17 officers who have either been dismissed or left prior to disciplinary proceedings being concluded.

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 – INTERNAL AUDIT PLAN FOR 2011/12, *Audit Committee 25th June 2011.*

8. Contact Officer Details

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