

Item No. 7.	Classification: Open	Date: 9 May 2017	Meeting Name: Audit, governance and standards committee
Report title:		Internal audit and anti-fraud progress report	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATION

1. That the audit, governance and standards committee note the progress report on internal audit and anti-fraud, covering the year from 1 April 2016 to 31 March 2017.

BACKGROUND INFORMATION

2. Internal audit is delivered by a contract. From 1 April 2016 to 30 November 2016 this was delivered by RSM Tenon. From 1 December 2016 this has been delivered by BDO. A progress report is attached as Appendix A to this report.
3. The anti-fraud work is conducted by two teams:
 - Anti-fraud services within finance and governance department, which investigates cases involving the council's employees, agents, contractors, anyone else conducting business for or with the council, and members of the public. There are multiple types of fraud this could include, including theft, council tax discount/exemption fraud, significant financial fraud, procurement fraud, grant fraud, national non-domestic rates fraud or evasion, false documents, identities and applications, and immigration offences.
 - The special investigation team within housing and modernisation department, which investigates housing tenancy fraud in respect of the housing stock owned and managed by the council and other social housing where legislation directs that a local authority has specific responsibility. This includes cases of unlawful subletting, non-occupation, succession, assignment, mutual exchange, and right to buy.
4. This report is structured:
 - Internal audit (paragraphs 5 to 7)
 - Reactive Anti-fraud work (paragraphs 8 to 12)
 - Proactive work:
 - National Fraud Initiative (paragraphs 13 to 16)
 - Anti-money laundering and right to buy (paragraphs 17 to 18)
 - Fraud and verification (paragraphs 19 to 20)
 - Document scanner (paragraphs 21 to 25)
 - Transparency (paragraph 26).

Internal audit

- Appendix A is the internal audit progress report from BDO and covers progress made by BDO for work undertaken against the 2016-17 and 2017-18 internal audit plans, as approved previously by the audit, governance and standards committee. It summarises the work BDO have done, together with their assessment of the systems reviewed and the recommendations raised.
- BDO have completed the audits assigned to BDO for 2016-17, meeting the overarching key performance indicator to issue all draft reports by 31 March 2017.
- All audit reports are currently in draft report stage awaiting management responses and will be included in the progress report presented to the committee at its meeting on 10 July 2017.

Reactive anti-fraud work

- The number of referrals received through the council's website, email, fraud hotline and by letter for the two anti-fraud teams between 1 April 2016 and 31 March 2017 was 1,005.
- The table below, shows the number of cases that have resulted in a successful sanction for each of the two anti-fraud teams between 1 April 2016 and 31 March 2017.

Team	2016-17	2015-16
Anti-fraud services	16	18
Special investigations team	61	55
Total	77	73

- In addition, housing management has recovered an additional 89 properties, and the special investigations team has undertaken an additional 22 preventative actions, which can include a right to buy being stopped or a tenancy succession claim being cancelled.

Proceeds of Crime Act

- The Proceeds of Crime Act 2002 (POCA) provides for the confiscation or civil recovery of the proceeds from crime and contains the principal money laundering legislation in the UK. This work acts as an important deterrent to show that crime against the council does not pay.
- Between 1 April 2016 and 31 March 2017, the courts have recognized that those the council has prosecuted have benefited from their criminal conduct to the value of £837,523. A total of £91,792 has also been received from the proceeds of crime work during this period from available assets.

National Fraud Initiative (NFI)

- Data for the 2016-17 biennial NFI cycle was released on 26 January 2017. The table below shows the number of matches released, which shows a similar number of matches released with the previous 2014-15 cycle.

Report	Recommended	Total All
Blue badges	395	413
Creditors history, including duplicate records	1,734	7,305
Creditors standing, including duplicate creditors	0	10,233
Council tax reduction scheme (new reports)	101	2,746
Housing benefits	341	3,634
Housing tenants	194	285
Market traders	0	1
Personal budgets	34	83
Pensions	205	292
Payroll	13	129
Right to buy	34	182
Resident parking permit	33	36
Waiting list	727	775
Total	3,811	26,114

14. As with NFI 2014-15, housing benefit matches that are identified as potential fraud cases will be referred to the DWP.
15. Recommended matches are treated with higher priority as they are considered better quality matches based on matching criteria and risk, and have historically yielded positive results.
16. The council is aiming to complete investigation of all recommended matches by 30 September 2017.

Anti-money laundering and right to buy

17. When a tenant makes a right to buy application they are sent a pack of information, which from 1 May 2016 includes a form to fulfil the council's responsibilities in respect of money laundering. No right to buy application will be processed without the form being completed.
18. The table below shows the outcomes and where cases are referred to the special investigations team or housing benefit service to review

	Number
Total forms issued	298
Forms returned: funded from legitimate sources	110
Forms returned: with concerns	
Applications withdrawn on receipt of the form	8
Withdrawn based on information provided on the form	1
Possible housing benefit fraud	5
Possible tenancy fraud	19

Fraud and verification

19. Two fraud and verification officers within anti-fraud services check the veracity of waiting list and homelessness applications which have raised a cause for concern, and conduct a review to enable housing management to make an informed decision on the applicant's eligibility to remain on the housing register.
20. Between 1 April 2016 and 31 March 2017, 173 waiting list applicants have been recommended for removal from the housing register, with 106 applicants recorded as

recommended as being bona fides. Five homeless applications have been recommended for being removed and two have been recommended as being acceptable.

Document scanner

21. The council uses seven scanners to verify identity documents including passports, ID cards and driving licenses. The scanners are located at the Aylesbury sub-office, Bournemouth Road, Tooley Street, Peckham and Walworth MySouthwark customer service points, Homeowner agency at Market Place, and Southwark Registrars Office.
22. If a document does not pass the scan, it is rescanned, therefore the number of scans will always be higher, or the same as, the number of customers. 2016-17 has seen a 27% increase in scans compared to 2015-16.
23. A score of 10 or more generally indicated a quality issue, and the document would be rescanned. A score of 15 or more indicates significant concerns about the veracity of the document. All of these cases have been checked by the anti-fraud team.

	Customers	Scans	Score of 10-14	Score of 15+	Confirmed false
Aylesbury sub-office/ NRPF	12	18	4	2	0
Housing options	911	1,084	147	37	0
Tooley Street/recruitment	304	581	39	24	0
Peckham service point	523	637	126	21	0
Registrars	1,242	1,655	161	40	0
Specialist housing services	675	841	94	11	0
Walworth service point	664	930	171	41	0
Total	4,331	5,746	742	176	0

24. Within recruitment there is one passport that failed a scan and action is being taken to authenticate the document. The potential member of staff was advised that the passport did not pass the scan and would need to provide further documentation. The individual is not yet on payroll, and the recruiting manager has confirmed that the individual will not start work unless we receive positive results from the document checks.
25. No false documents have been confirmed by this system so far in 2016-17, and it is believed that the use of the scanners provides a clear and strong deterrence.

Transparency

26. In February 2015, the Local Government Transparency Code was revised and published. This now includes a requirement to publish the following information about counter fraud work annually. The table below shows the information required.

	2016-17	2015-16	2014-15
Number of occasions used Prevention of Social Housing Fraud powers	25	38	40
Number of FTE investigators/prosecutors	12	13	23
Number of FTE accredited counter fraud officers	10	12	12
Total spend	£570,303	£617,915	£873,000
Total number of cases investigated	509	491	1,751

Policy implications

27. This report is not considered to have direct policy implications.

Community impact statement

28. This report is not considered to have direct impact on local people and communities.

Resource implications

29. The costs of the internal audit contract and the anti-fraud service are met from existing budgets.

Consultation

30. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

31. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None.		

APPENDICES

No.	Title
Appendix A	Internal audit progress report

AUDIT TRAIL

Lead Officer	Jennifer Seeley, Director of Finance	
Report Author	Jennifer Seeley, Director of Finance	
Version	Final	
Dated	25 April 2017	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Strategic Director of Finance and Governance	No	No
Director of Law and Democracy	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	25 April 2017	