



City of Westminster

Audit and Performance Committee Report

Meeting:	Audit and Performance Committee
Date:	21 November 2012
Classification:	For General Release
Title:	Internal Audit & Counter Fraud Summary Monitoring Report – August to October 2012
Wards Affected:	All
Financial Summary:	Service Budget 2012/13 £983,155
Report of:	Chief Operating Officer

1. Executive Summary

Key outcomes from the Internal Audit & Counter Fraud work – August to October 2012:

- Audit work carried out in the period found that **in the areas audited, internal control systems were generally effective** with 65% of the audits completed receiving a positive assurance opinion. The Council was found to be effective at implementing recommendations where problems were found. Where control improvements are required and compliance with agreed systems should be improved action plans are in place to remedy the weaknesses identified and these will be followed up until they are considered to be complete.
- Housing Benefit Fraud Investigations resulted in seven prosecutions and 19 “Cautions” or “Administrative Penalties” being issued during the period which related to overpayments and fines totalling £247K.
- General fraud investigation work has resulted in 3 Council/housing association properties being recovered.

2. Recommendation

That the Committee consider and comment on the internal audit and counter fraud work carried out during the period.

3. Background, including Policy Context

RSM Tenon is the Council's appointed internal auditors and counter fraud specialists. Detailed reports on the performance of the Internal Audit and Anti-Fraud contract and the outcomes of the work undertaken are presented monthly to the Deputy Director, Corporate Finance. These can be made available to the Committee on request. The Audit & Performance Committee receives updates at each meeting on all RED RAG or AMBER RAG limited assurance audits issued in the period together with details of any significant fraud investigations.

4. Opinion on the Control Framework

Our opinion is that at the time of preparing this report, the Council's internal control systems in the areas audited were adequate. This is a positive opinion which means that the Council generally has effective internal control systems with 65% of audits receiving a positive assurance opinion. The implementation of "significant" and "fundamental" recommendations has been consistently effective.

In the above context we stress that:

- This opinion is based solely upon the areas reviewed and the progress made by the Council to action our recommendations;
- Assurance can never be absolute neither can our work be designed to identify or address all weaknesses that might exist;
- Responsibility for maintaining adequate and appropriate systems of internal control resides with council management, not internal audit;
- We have not placed reliance on other agencies' work in carrying out our audits.

5. Audit Outcomes in the Period

Since the last report to the Committee, the following compliance audits were undertaken none of which identified any key areas of concern:

- Accounts Receivable (O2C);
- Accounts Payable (P2P).

Two audits were found to have strong control environments in place and received a positive opinion:

- Financial Reporting (R2R);
- Olympic Grant Funding.

One audit was completed with significant findings, which has been summarised below:

5.1 St Luke's Primary School (Amber)

Although the School had established procedures which were considered appropriate, the audit identified a number of areas where these procedures were not complied with. Areas identified where an improvement in compliance was required included the purchasing and payments processes and the maintenance of personnel records. In addition, at the time of the audit, the cheque account could not be reviewed as there were outstanding reconciliation issues. Six significant recommendations have been made and since the audit was completed, the School have confirmed that all of these recommendations have been addressed. The implementation of the recommendations will be confirmed in a follow-up review which is expected to be undertaken in November/December 2012.

5.2 Implementation of Audit Recommendations

Follow up audit work found that the implementation of recommendations was good with 95% of priority 1 and priority 2 recommendations implemented by their due date.

6. Anti-Fraud Work Outcomes

6.1 Summary of Housing Benefit Fraud Investigations

The table below illustrates the sanctions achieved to date in the financial year 2012/13. From a total of 248 investigated cases there have been 36 sanctions to date. The investigations have identified £413K in overpaid Housing Benefit of which approximately 25% has been recovered to date. The remaining amounts are subject to continuing recovery action. It has always been the case that

recovery has been slow due to the constraints on the action that can be taken, although eventually the majority of the money will be recovered. Internal Audit continues to work with the responsible sections of the Council to improve the speed of recovery.

Year 2012/13 Sanction	No of Cases	Overpayments/ Fine	Recovered to Date	Recovery Rate – Oct 2012	Comparison Recovery Rate Previous Year (Oct 2011)
Prosecution	9	£339,184	£61,853	18.23%	25.42%
Official Cautions	12	£ 26,254	£5,842	22.25%	18.78%
Administrative Penalties (overpayments & fines)	15	£ 47,404	£12,944	27.31%	22.82%
Totals	36	£412,842	£80,639	19.53%	31.37%

6.2 Since the last report to Committee in September, there have been seven prosecutions for Housing Benefit fraud and eight Administrative Penalties and eleven Cautions have been issued. These resulted in overpayments and Administrative Penalties of £247K all of which is recoverable from the claimants.

The outcomes for the seven prosecution cases were as follows:

- A letting agent of a Housing Benefit claimant who formerly resided in W1 was sentenced to five and a half years in prison following a trial at Southwark Crown Court. The defendant was charged with a number offences arising from investigations by the Metropolitan Police's Money Laundering Task Force as well as three separate offences relating to Housing Benefit fraud. The sentence relating to the Housing Benefit offences was 18 months for each of the three offences with the sentences to run concurrently. The letting agent had been identified as the tenancy holder for an address where his partner was claiming Housing Benefit. The total value of the overpayment was calculated to be nearly £75K. The benefit claimant was found not guilty at the trial as it was believed that she had no knowledge of the claim made in her name. A confiscation hearing is due in early 2013 with regards to the potential recovery of the overpaid Housing Benefits from the letting agent's assets which have been restrained under Proceeds of Crime legislation;
- A Benefit claimant from W2 was jailed for 56 days after pleading guilty to two offences of Benefit fraud at Westminster Magistrates Court. A data matching exercise had identified that the claimant had set up a postal re-direction to a mail box address. Enquires with the owners of the claim address established that the property had been empty for over three years and the claimant had

never been resident. As a result of the claimant's false application and the production of a false tenancy agreement, £8.5K in Housing Benefit had been paid over a four month period;

- A Housing Benefit claimant who had received Benefit in respect of a property in W2, pleaded guilty to two offences of benefit fraud at Westminster Magistrate's Court. A data match indicated that the claimant was also receiving Housing Benefit from the LB Harrow and investigators established that the claimant had never resided at the Westminster claim address. The claimant had received over £18K in Housing Benefit over a 5 month period having submitted a false application for Housing Benefit with false rent proof. The claimant was sentenced to a Community Order requiring her to undertake 180 hours of unpaid work in the community, a curfew was imposed and costs were awarded to the Council;
- A Benefit claimant from W9 pleaded guilty to three counts of Housing Benefit fraud at Westminster Magistrates Court. A sub-tenant had approached the Council's Tenancy Relations Officer with concerns and investigators established that the claimant had not been resident in her property between September 2010 and February 2012 but had been in receipt of Housing Benefit for this period. During this time, the flat had been sub-let for £750/month with the income from the sub-letting going into a bank account which had never been declared by the claimant. The claimant admitted to spending the fraudulently obtained Housing Benefit totalling over £25K on cosmetic surgery. The claimant was sentenced to a 6 week prison sentence which was suspended for two years and a 60 hour Community Punishment Order;
- A former resident of W2 was sentenced to an 18 month Community Order involving 200 hours of unpaid work after pleading guilty to three counts of Benefit fraud. The case was referred for investigation when the Benefits Service identified that an adult son declared as resident at the property was claiming Benefits in his own right from the LB of Wandsworth. During the investigation, it was noticed that the claimant had deliberately inflated the rent paid from £500 to £750 week in order to get more Housing Benefit. In total the claimant received over £24.5K in Housing Benefit to which she was not entitled.
- A data match identified a claimant from W2 who had failed to notify the Council of a change in circumstance and was receiving Housing Benefit from the Council as well as from the LB Ealing. The value of the overpaid Housing Benefit for the five month period was nearly £8.5K. The claimant pleaded guilty at Westminster Magistrates Court and was sentenced to a Community Order requiring her to undertake 150 hours unpaid work in the community within the next 12 months. The claimant was also ordered to pay £500 in costs;

- A former resident from W10 pleaded guilty to four offences of fraud by declaring that she was employed part-time when she was employed on a full-time basis as a housekeeper. The fraud was committed over a period of nearly five years and resulted in an overpayment of Housing Benefit of £26K. The claimant stated that she had sent the proceeds of the fraud to the Philippines to support her family. The claimant was sentenced to 200 hours of unpaid work in the community which was to be completed within 12 months and ordered to pay £500 in costs.

6.3 Summary of General Fraud Investigations

Since the last report to Committee, investigations have resulted in:

- 1 Housing Association property being recovered; and
- 2 Council properties being recovered.

Housing Fraud

Housing investigations in the period resulted in the recovery of three properties:

- A two bedroom Council property has been recovered following an investigation into sub-letting. The property was located on the Church Street Estate and following the investigation, the Council was granted an order for the possession of the property;
- Investigations into Council tenants of a two bedroom property in Pimlico identified that the tenants were living in a property that they owned in Hertfordshire whilst their son sub-let the Council property. As a result of the investigations, the keys to the Council property have been returned;
- An investigation into the sub-letting of a one bedroom Housing Association property has been completed. Background enquiries and visits by the Social Housing Fraud Investigator resulted in the tenant voluntarily surrendering the keys to the property.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

Chris Harris on 020 7641 2820,

Email: chris1.harris@rsmtenon.com.

Address: Internal Audit, 33 Tachbrook Street, London, SW1V 2JR. Fax: 020 7641 6039

BACKGROUND PAPERS

Internal Audit Reports;

Monthly monitoring reports