Aberdeen City Council

Fraud Governance – Housing Tenancy and Scottish Welfare Fund

Final Report

Internal Audit Report
2014/2015 for Aberdeen
City Council

November 2014

Internal Audit KPIs	Target Dates	Actual Dates	Red/Amber/Green and commentary
Terms or reference agreed 4 weeks prior to fieldwork	21.07.2014	09.06.2014	**Green**
Planned fieldwork start date	18.08.2014	18.08.2014	**Green**
Fieldwork completion date	29.08.2014	01.09.2014	**Amber** – delays in accessing key ACC staff
Draft report issued for Management comment	18.09.2014	17.09.2014	**Green**
Management Comments received	02.10.2014	19.09.2014 23.10.2014 04.11.2014	**Amber -** initial comments received on time. Follow up required on Scottish Welfare Fund and management not available to discuss due to annual leave.
Report finalised	11.11.2014	04.11.2014	**Green**
Submitted to Audit and Risk Committee	20.11.2014	20.11.2014	**Green**

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1. Executive Summary

Report classification	Total number of findings			Section 3		
		Critical	**High**	**Medium**	**Low**	**Advisory**
	Control design	-	-	2	-	2
Low Risk	Operating effectiveness	-	-	-	-	-
	Total	-	-	**2**	-	**2**
	Responsible Director: Director of Housing and Environment					
	Project Sponsor: Head of Housing and Community Safety					

Summary of findings

1.01   The scope of our review was to assess the design and operating effectiveness of controls for the prevention and detection of fraud in housing tenancy and the Scottish Welfare Fund. In the course of our review we have identified areas of good practice that help mitigate fraud risks; however, we have also identified areas for improvement and have made two medium and two advisory findings for the attention of management. Overall we identified that there is largely a reactive approach to fraud prevention and detection, and the challenge for the Council is to move towards a model of proactive fraud prevention and detection.

Housing tenancy

1.02   Tenancy fraud is a significant issue for Local Authorities and social housing providers. In Aberdeen it is of particular importance given that the demand for Council tenancies greatly exceeds the available supply. It is therefore essential that the Council is able to minimise the misuse of Council housing to ensure public confidence in the process and to protect the 'public purse'.

1.03   In the course of our review areas of good practice were identified in the controls implemented to prevent housing tenancy fraud. These include identification checks of applicants and verification of the applicant's details, which are cross-checked against the offer papers. However, there are gaps in the current process which may expose the Council to the risk of not preventing or detecting housing tenancy fraud.

1.04   Our primary finding concerns the lack of assessment and identification of fraud risks in housing tenancy. While controls exist that might prevent fraud, these have not been formalised, rationalised or tailored to address the fraud risks. Without a clear understanding of the fraud risks it is not possible for the Council to ensure that its processes and controls are sufficient to address the specific risks that may exist. Developing a fraud risk register would enable the Council to verify that its

fraud prevention and detection controls are appropriate. *(Finding 3.01)*

1.05   The Council also has a lack of data on housing tenancy fraud. This was underlined in the response to a recent Freedom of Information request (FOI-13-0253) in which Council officers were unable to provide figures on the number of suspected tenancy fraud cases, numbers of tenancy fraud investigations or the numbers of tenancy frauds identified. Implementing a fraud reporting register would enable the Council to monitor this data and to quantify the extent of potential housing tenancy fraud within the City. This data is important in building a clear rationale for investment in housing tenancy fraud prevention and detection. This data can also be used to identify fraud risks and inform the development of processes and controls. *(Finding 3.01)*

1.06   Our testing of the key fraud prevention controls identified areas of inconsistency in documentation that made it difficult to verify whether the appropriate verification checks of housing tenancy applicants had occurred as required. It is important that Housing Officers are clear in documenting the checks they have performed and that these are retained on file to evidence the proper performance of controls. Not only is this relevant for audit purposes, but it may also be relevant for evidencing proper procedures were followed in cases where frauds are later uncovered. We have also identified areas for improving on current controls based on what other Local Authorities have done to address housing tenancy fraud. *(Finding 3.02)*

Scottish Welfare Fund

1.07   The delivery of the Scottish Welfare Fund has been assigned to Local Authorities on an interim basis. Primary legislation (currently in progress) will set out the permanent arrangements for the fund. In the meantime, Local Authorities operate under guidance issued by the Scottish Government, and this includes a requirement that fraud is appropriately governed.

1.08   We identified areas of good practice around fraud prevention controls in the administration of the Scottish Welfare Fund. The fund offer grants of two types; crisis grants and community care grants. For both types of grant applicants details are verified using the Department of Work and Pension's (DWP) systems and identification checks are carried out at the point of awarding any grants, with applicants required to provide photographic or other appropriate personal identification. For community care grants, purchases are made through approved vendors using the Council's procurement systems and receipt of goods is verified by the vendor.

1.09   Similar to our findings for housing tenancy, we found a lack of assessment and identification of fraud risks relevant to the Scottish Welfare Fund. There is also no formalised process for recording fraud or suspected fraud. Quantifying the level of fraud and identifying the fraud risks is critical to establishing effective fraud prevention and detection controls and evidencing good fraud governance. *(Finding 3.03)*

1.10   Areas for improvement in the design of fraud prevention and detection controls have also been identified. Of particular importance among these is to implement a more formal risk profiling of applicants to identify those where visits by officers might be necessary to verify the claims made by applicants. There is also scope for improving internal controls around assignment of decision making to Scottish Welfare Team members in order to mitigate against the risk of internal fraud. *(Finding 3.04)*

1.11   Please note, at the time of finalising the report we were informed by management that the Scottish Government is currently satisfied with the processes and controls in place to administer the Scottish Welfare Fund. As a result, although we believe improvements could be made and consider the recommendations to be best practice, we have agreed that it is appropriate to raise these findings as advisory.

Management comments

We do not believe that there is a significant problem with regards to tenancy fraud, but accept that it is helpful to review our processes etc to minimise any risk of serious fraud. To that end my staff intend to carry out a Risk Assessment which will enable us to introduce controls which must be proportionate to our assessment of any risk. Presently we are required to carry out checks on EEA nationals to confirm their entitlement to both housing and access to Public funds. Whilst it might not be appropriate to do so for all UK nationals as well, taking account of our statutory and regulatory responsibilities an increase in the checks we carry out may be appropriate. The Risk Assessment will help with making any decision. I am aware that as a result of this report Housing staff will now have access to information held within our Revenues and Benefits systems which will further enhance our security.

The Scottish Welfare Fund is a scheme operated by Local Authorities' on behalf of the Scottish Government. Whilst Aberdeen City Council does not believe there is a significant fraud issue we do welcome any input in to improving the processes in operating the scheme.

2. Detailed findings and recommendations

2.01   Housing Tenancy: identification and assessment of fraud risks and fraud reporting – Control design

Findings
There is no formal documented identification and assessment of fraud risks for housing tenancy. There is also no policy document that outlines the Council's approach to addressing tenancy fraud. Developing a clear policy that identifies fraud risks, and the processes and controls in place to address those risks, is important in ensuring that risks are adequately addressed and gaps in the process are identified.
It is recognised that many Local Authorities have not developed a policy; however there are Local Authorities in Scotland, who as a matter of good practice, have developed policies for housing tenancy fraud. Given that Aberdeen City may be considered as an area of greater risk for tenancy fraud (in the context of supply and demand), there is justification for the Council adopting good practice wherever possible in this area. A policy document that identifies the fraud risks and highlights the actions being taken to address those risks would enable the Council to clearly articulate its approach to fraud governance in this area, to the public as well as to Council staff.
In addition to developing a clear policy, the Council should also develop a process for properly recording instances of fraud and suspected fraud in housing tenancy. At present the data available is poor and this was highlighted in a recent response to a Freedom of Information request (FOI-13-0253) where the Council could not provide figures on the total number of suspected tenancy fraud cases, the total number of tenancy fraud investigations undertaken, or the total number of tenancy frauds established over a three year period. Without this information it is difficult for the Council to quantify the extent of housing tenancy fraud as an issue, and therefore to adequately establish the level of resource required to address any problem.

Risks
Housing tenancy fraud risks are not adequately addressed exposing the Council to financial and reputational risks where fraud occurs.

Action plan		
Finding rating	**Agreed action**	**Responsible person / title**
Medium	• A fraud risk assessment and identification will be undertaken for Housing Tenancy. This will identify the fraud risks and map these to appropriate fraud prevention and detection controls in place that mitigate those risks. • A fraud register will be established for housing tenancy to allow cases of fraud or suspected fraud to be formally recorded. Processes will be established for staff to report fraud and suspected fraud for inclusion on the registers. • A formal policy document will be developed that clearly explains the Council's approach to tackling potential housing tenancy fraud. (ADVISORY ONLY)	Edward Thomas, Housing Access Manager Martin Smith, Housing Manager **Target date:** 30 November 2014

2.02 Housing Tenancy: fraud prevention and detection – Control design

Finding

Of a sample of 25 housing tenancy offers made in the period from 1 August 2013 to 31 July 2014 we identified 12 cases where paperwork on file was incomplete or inconsistently documented for evidencing the effective operation of fraud prevention and detection controls. This was predominantly for cases where the routine visit had been marked as having occurred in the iWorld system but the required routine visit pro-forma was not scanned and attached. In two cases, all the relevant paperwork had not been signed by both the Housing Officer and the tenant, and in one case there was no documentation at all on file to verify that the checks had been performed. It is understood that there are problems with iWorld scanning and it was noted during our work that the quality of the scanned documents was often poor, with scans of passport and photographic ID in particular completely unreadable.

Consistent and timely documentation is important to ensuring that controls are being performed as expected. Not only is this relevant from an audit perspective, but it may also be relevant in cases where there are disputes between the Council and tenants as to any areas of the lease agreement. Having signed paperwork documented on file enables the Council to prove it has followed procedures and complied with any legal obligations that it may have.

We have also identified areas for improvement in the current controls based on what other local authorities have been doing to tackle tenancy fraud. Some good practice controls that could be implemented include:

- Data matching between other Council systems to verify details submitted by housing tenancy applicants, for example read-only access for housing teams to the Revenues and Benefits System;

- Taking colour photographs of tenants at the start of the lease and during tenancy audits to give housing officers an easy visual aid to determining whether the person residing in the property is the registered tenant;

- Previous address checks to identify whether the applicant has a legal interest in any other properties;

- Annually selecting a random sample of tenancies to visit to verify that the person residing in the property is the registered tenant. Initially this could be performed on a random basis but as information of fraud risks is developed the approach could be tailored to target tenancies that have certain fraud risk indicators;

- Public awareness campaigns to alert the public to housing tenancy fraud and the means of reporting suspected fraud; and

- Training for staff in fraud prevention procedures and investigation techniques.

Please note: if the Council wish to implement these additional controls it is suggested that a cost benefit analysis is performed.

Risks

Fraud controls are not sufficient to prevent or detect housing tenancy fraud from occurring, thereby exposing the Council to financial, regulatory and reputational risks.

Action plan		
Finding rating	**Agreed action**	**Responsible person / title**
Medium	• Housing Officers will be reminded of their responsibility for timely and consistent documentation in evidencing proper fraud prevention checks have been performed at the start of a new tenancy. • Current fraud prevention and detection controls will be reviewed to identify where new controls could be implemented. This will be performed in conjunction with the recommendations in finding 3.01 and will take account of the risk to the Council of housing tenancy fraud, and an assessment of the available resource within Housing and Environment to manage new controls. Reference will be made to good practice adopted by other Local Authorities in determining appropriate controls to implement.	Edward Thomas , Housing Access Manager Martin Smith, Housing Manager **Target date:** 30 November 2014

2.03 Scottish Welfare Fund: identification and assessment of fraud risks and fraud reporting – Control design

Findings
As with housing tenancy there is no formal documentation that identifies and assesses fraud risk for the Scottish Welfare Fund. Without having considered the fraud risks it is not possible for the Council to be sure that all risks are being mitigated by current processes and controls. Performing a fraud risk assessment, and identifying the fraud risks, will enable controls to be designed that are effective in addressing those risks. Please note, due to the financial assistance on offer and the means in which fraud can be committed, we consider the risk and impact of fraud within the Scottish Welfare Fund to be less than housing tenancy. As a result, it is not anticipated that a formal Council policy would be developed within this area.
Fraud reporting is also not formalised and there is no register for recording cases of fraud or suspected fraud in respect of the Scottish Welfare Fund. Collecting data on cases of fraud enables the Council to identify where fraud risks exist and to ensure that fraud is being appropriately addressed when identified.
Please note, at the time of finalising the report we were informed by management that the Scottish Government is currently satisfied with the processes and controls in place to administer the Scottish Welfare Fund. As a result, although we believe improvements could be made and consider the recommendations to be best practice, we have agreed that it is appropriate to raise this findings as advisory only.

Risks
Housing tenancy fraud risks are not adequately addressed exposing the Council to financial and reputational risks where fraud occurs.

Action plan		
Finding rating	**Advisory action**	**Responsible person / title**
Advisory	• A fraud risk assessment and identification will be undertaken for the Scottish Welfare fund. This will identify the fraud risks and map these to appropriate fraud prevention and detection controls in place that mitigate those risks.	Wayne Connell, Revenue and Benefits Manager
	• Fraud registers will be established for the Scottish Welfare Fund to allow cases of fraud or suspected fraud to be formally recorded. Processes will be established for staff to report fraud and suspected fraud for inclusion on the registers.	**Target date:** Not applicable

2.04 Scottish Welfare Fund: fraud prevention and detection – Control design

Finding
From a sample of 50 crisis grants and community care grants, in three cases there was no evidence maintained of the completion of the CIS enquiry. This check involves verifying the claim made by the grant applicant against records held in the systems of the Department of Work and Pensions (DWP). All three cases related to applications for community care grants.

We have also identified areas for improvement in the controls to prevent and detect fraud that are currently in place:

- At present there is no formal control to prevent the two members of the Scottish Welfare Fund team who have appropriate access, submitting a fraudulent claim and assigning it to themselves for approval. This in effect means that these team members could award themselves a grant.

- Visits to grant applicants could be performed to verify the details of their claim. For a sample of successful applicants a follow-up visit could also be considered, especially in the case of community care grants, to confirm that the applicant has received the goods and is making use of the goods.

Please note, at the time of finalising the report we were informed by management that the Scottish Government is currently satisfied with the processes and controls in place to administer the Scottish Welfare Fund. As a result, although we believe improvements could be made and consider the recommendations to be best practice, we have agreed that it is appropriate to raise this finding as advisory only.

Risks
Fraud controls may not sufficient to prevent or detect fraudulently grants being obtained from the Scottish Welfare Fund exposing the Council to financial, regulatory and reputational risks.

Action plan		
Finding rating	**Advisory action**	**Responsible person / title**
Advisory	• Staff will be reminded of their responsibility to ensure that all relevant documentation is retained to evidence proper checking of grant applicants in line with the fraud prevention controls.	Wayne Connell, Revenue and Benefits Manager
	• All grant applications will be assigned to Scottish Welfare Fund team members for processing by the Team Leader or their designate. This will ensure that there is a segregation of duties between those processing claims and those approving claims.	
		Target date:
	• Visits to grant applicants, both before and after grants being rewarded, will be performed. This process will be risk led focusing on those applicants who are deemed to meet certain fraud risk criteria. The criteria used will be developed in conjunction with the fraud risk assessment performed for finding 3.03.	Not applicable

Appendix 1 – Background and scope

Background

2.01   The overall scope of our review was to assess the design and operating effectiveness of the key controls in place to prevent and detect fraud for both housing tenancy and the Scottish Welfare Fund.

2.02   Aberdeen City Council has around 22,500 Council tenancies across the city. The demand for Council tenancies currently significantly outweighs the available supply. Specific fraud risks in housing tenancy include fraudulent representations in housing applications or illegal sub-letting. Both risks are of significance to the Council given the current demand for housing in Aberdeen.

2.03   The Scottish Welfare Fund has been temporarily established by the Scottish Government while it develops primary legislation that will define the permanent arrangements. The administration of the fund by Councils is an interim arrangement until legislation is finalised. The most recent figures, for the three months from April to June, show the fund has awarded £76,985 in crisis grants and £155,482 in community care grants. The average crisis grant award per person is £56 and the average community care grant aware per person is £442. Although an individual is normally restricted to a maximum of three grant awards in any 12 month period, Local Authorities can award additional grants at discretion. Specific fraud risks for the Scottish Welfare Fund include fraudulent representations in grant applications or successful applicants misusing their awards, for example selling furniture awarded under a community care grant.

Assessment and communication

Housing tenancy

2.04   Formal policies and procedures for assessing and identifying fraud risk are not in place for housing tenancy. The current process documentation communicates to staff the key processes and controls to be performed, but does not assess fraud risks or identify where fraud risk might occur.

Scottish Welfare Fund

2.05   As above, there is no formal policy and procedure that assesses and identifies fraud risks relevant to the Scottish Welfare Fund. There are process maps which detail the process to be followed by team members in determining grant applications, but this does not identify fraud risks or the key controls relevant to addressing those risks.

Prevention and detection

Housing tenancy

2.06   The key controls for preventing and detecting fraud in housing tenancy applications occur at the offer stage where an applicant is being made an offer for a Council tenancy. Offer papers are submitted by the Housing Access team to the relevant Housing Officers who are then responsible for verifying the details in the offer papers with the prospective tenant. The Housing Officer will complete a rent checklist and mark on the offer papers with a tick-mark to verify that they have confirmed the details with the prospective tenant. Non-UK nationals are required to provide a passport, or other photographic identification, and evidence of their right to work in the UK, as well as evidence of their employment. All documentation should be scanned and retained on the iWorld system.

2.07   Routine visits are conducted with the tenant after they have moved into the property. The target is for this visit to be conducted 28 days after the tenant has taken possession of the keys. A routine visit pro-forma is completed by the Housing Officer during the visit and should be scanned and retained on the iWorld system.

Scottish Welfare Fund

2.08   The key controls for the Scottish Welfare Fund are focused on fraud prevention. All grant applicants are checked against the benefits information on the Department of Work and Pensions (DWP) systems. This check is then documented on a CIS enquiry form to verify that the applicant's details match to those on the DWPs records.

2.09   Crisis grant applicants are generally awarded vouchers or cash payments; to collect these the applicant must present in person at the Council. On collection the applicant is expected to provide appropriate identification to verify their identity and may also be asked to provide further evidence in support of their claim. Appropriate identification includes photographic ID, but may also include bank statements or utility bills. The receipt of the grant is then signed and dated by the applicant and the Scottish Welfare Team member.

2.10   Community care grants generally involve the award of goods such as cookers, sofas or bedding, and these will be ordered by the Scottish Welfare Team using PECOS through the Council's preferred suppliers. Receipt of the goods is evidenced by the supplier and through the invoicing for the purchase.

Reporting

Housing tenancy

2.11   The reporting process for fraud is not formalised for housing tenancy. There is no fraud register maintained for recording fraud or suspected fraud. There are also no formal procedures through which staff can communicate fraud or suspected fraud. However, informally staff will raise concerns and these can be communicated to other areas of the Council, where appropriate, if there is a belief the fraud may impact other areas, for example housing benefit.

Scottish Welfare Fund

2.12   As with housing tenancy the fraud reporting process is not formalised for the Scottish Welfare Fund. Although no cases of fraud have yet been identified, instances of

misuse/abuse of the award (for example, a claimant is awarded a washing machine correctly but sells the machine for cash) have been. Informal processes exist but these do not evidence a consistent and documented procedure for fraud reporting.

Scope and limitations of scope

2.13   The detailed scope of this review is set out in Appendix 2 in the Terms of Reference. We have undertaken a review of the design and operating effectiveness of the Council's controls for Fraud Governance within Housing and Environment in the areas contained within this Terms of Reference. Our work was undertaken using a sample based approach.

Appendix 2 – Agreed Terms of reference

Background

Fraud is commonly used to describe a wide variety of dishonest behaviours such as deception, forgery, false representation, and concealment of material facts. Fraud can be perpetrated by persons outside as well as inside an organisation, and by collusion.

Aberdeen City Council must ensure appropriate preventive and detective controls are in place to protect against fraud. Preventive controls are designed to limit the possibility of an undesirable outcome being realised whilst detective controls are designed to spot errors, omissions and fraud after the events have taken place.

The Scottish Welfare Fund and housing tenancy have been identified as areas within Housing and Environment which are susceptible to fraud and have not yet been subjected to an independent review. The Scottish Welfare Fund guidance (issued by Scottish Government) and the Scotland Housing Act 1987 set expectations that fraud should be appropriately governed within these areas.

Scope

We will review the design and operating effectiveness of the key controls in place in relation fraud governance for the Scottish Welfare Fund and housing tenancy. Tenancy fraud will be specifically considered in relation to fraudulent applications for housing and unauthorised sub-letting. The sub-processes included in this review are:

Sub-process	Objectives
Assessment and Communication	• The area's most vulnerable to fraud (and how this can be committed) have been formally identified and assessed; and • The approach to fraud governance is clearly communicated to staff
Prevention and Detection	• Procedures are in place and consistently followed to prevent fraud in the areas identified; and • Procedures are in place and consistently followed to detect fraud in the areas identified.
Reporting	• Internal and external reporting lines are clearly defined and consistently followed; • Procedures are in place to ensure fraud is reported to other departments within the Council if there is a risk that fraud is more widespread; and • A register of fraud and suspected fraud is maintained.

Limitations of scope

The scope of our review is outlined above. This will be undertaken on a sample basis.

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the procedures in place through discussion with key personnel, review of documentation and walkthrough tests where appropriate.
- Identify the key risks in respect of fraud governance
- Evaluate the design of the controls in place to address the key risks.
- Test the operating effectiveness of the key controls on a sample basis.

Key Council Contacts

Name	Title
Pete Leonard	Director of Housing and Environment
Donald Urquhart	Head of Housing and Community Safety
Wayne Connell	Revenues and Benefits Manager
Steve MacRae	Team Leader – Scottish Welfare Fund
Edward Thomas	Housing Access Manager

Appendix 3 - Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of Fraud Governance within Housing and Environment, subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to Fraud Governance is as at 18 August 2014. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or

- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.