

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**PROTECTING THE PUBLIC PURSE**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To inform the Audit Committee of the main messages contained in the Audit Commission's counter fraud report Protecting the Public Purse.
- 1.2 Invite members to consider the checklist attached to the report showing arrangements that should be in place in model counter fraud procedures.

**2. BACKGROUND INFORMATION**

- 2.1 The Audit Commission publishes annual counter fraud reports – Protecting the Public Purse. The latest report issued in October shows fraud continues to be a significant problem affecting the whole economy. For local government although detected fraud losses are low compared with total council spend significant amounts of money are involved nationally:
- Detected fraud in 2009/10 amounting to £135m; and
  - 119,000 individual fraud cases.

- 2.2 The report shows good progress in areas previously identified:
- Housing tenancy fraud – 1,600 properties with a replacement value of around £240m were recovered from unlawful tenants
  - Fraudulent claims for council tax discounts – 48,000 fraudulent claims were stopped in 2009/10 increasing the local tax base by almost £15m.

The report also shows how tackling fraud can help councils to get more value from taxpayers' money by addressing fraud risks in significant areas of expenditure such as:

- The expansion of personal budgets for adult social care and safeguards are needed to protect vulnerable people and to prevent financial loss.
- Housing and council tax benefits remains an area for scrutiny – 63,000 frauds and £99m fraudulent payments were uncovered during 2009/10

- Procurement is worth around £80 billion each year and measures need to continue to be taken to prevent and detect fraud and other illegal procurement activity that waste large sums of money.

All these areas were recognised and are included in the audit plan. The outcome of this work will be reported in the Internal Audit Annual Report presented to the committee in June.

2.3 In the current economic climate it is more important than ever to maintain strong defences against fraud. Some areas of good practice identified include:

- Adopting a zero tolerance policy towards fraud
- Working with partners in the public and private sectors to overcome barriers to effective fraud fighting
- Making best use of information and intelligence
- Taking legal action to recover fraud losses.

2.4 The council is in a strong position and arrangements are continually reviewed against best practice and procedures and partnerships are developed to prevent and deter fraud. Some examples include:

- All potential fraud areas have been risk assessed and additional controls identified. Specific counter fraud activity is included in the audit plan and progress reported regularly to the Audit Committee.
- The Counter Fraud Strategy has been strengthened and clearly supports the council's zero tolerance to fraud
- The communication strategy of newsletters, fraud bulletins, screen savers, posters, leaflets and magazine articles have generally raised awareness and general staff responsiveness
- Every opportunity is taken to use intelligence to prevent fraud through National Anti Fraud Network and CIPFA Better Governance Forum membership and National Fraud Initiative (Data Matching) participation.
- Well established Chief Auditor networking with neighbouring councils shares intelligence on fraud experience. Protocols have been established with human resources colleagues and police liaison officers to efficiently investigate and prosecute fraud.

2.5 The report included a number of recommendations which are attached in appendix A along with North Lincolnshire's response. A checklist of best practice arrangements that members should look for is also included for information in appendix B.

### **3. OPTIONS FOR CONSIDERATION**

3.1 The Committee is asked to consider whether the Audit Commission's report and the council's response provide sufficient assurance on the adequacy of counter fraud arrangements during 2010/2011.

- 3.2 The Committee may decide that this report does not provide sufficient assurance on the adequacy of counter fraud arrangements in place and may seek alternative arrangements.

#### **4. ANALYSIS OF OPTIONS**

- 4.1 Regular counter fraud update reporting complies with best practice and professional guidance available and is designed to provide this Committee with the assurance required. Members should ask sufficient questions to ensure the report provides sufficient assurance to fulfil their role as set out in the Committee's terms of reference.
- 4.2 The option set out in 3.2 represents an opportunity missed to receive an important source of assurance to assist the Committee to fulfil its role effectively.

#### **5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

- 5.1 Costs of the counter fraud publicity are met from the Internal Audit budget and have been incorporated into the 2010/2011 Audit Plan. Minor costs associated with the telephone and publicity for the Hotline will continue to be maintained within the Finance Service budget. Savings should continue to accrue as a result of improved efficiency and the avoidance of loss.
- 5.2 There are no additional staffing implications, as the internal audit section will continue to operate the Hotline from within existing resources. Training requirements identified will be met from the contingency included in the audit plan. Training of staff outside the audit team will be resourced from time set aside in the Audit plan to develop counter fraud arrangements.
- 5.3 Effective counter fraud arrangements demonstrate the council has good arrangements in place to support the Annual Governance Statement and to promote good corporate governance.

#### **6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 – CRIME AND DISORDER, RISK AND OTHER)**

- 6.1 The Chief Financial Officer has a statutory duty under the provisions of the Local Government Act 1972 to ensure the proper administration of the council's financial affairs.

The council's arrangements to prevent, detect and deter fraud and corruption comply with relevant legislation such as, Public Interest

Disclosure Act 1998, Regulation of Investigatory Powers Act 2000  
Proceeds of Crime Act 2002, Terrorism Act 2000 and the Money  
Laundering Regulations 2003 and 2007.

## 7. **OUTCOMES OF CONSULTATION**

7.1 There are no consultation outcomes to report

## 8. **RECOMMENDATIONS**

8.1 The Audit Committee should consider whether this report delivers a sufficient level of assurance on the adequacy of counter fraud arrangements.

SERVICE DIRECTOR FINANCE

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**Background Papers used in the preparation of this report :**  
Audit Commission Report – Protecting the Public Purse 2010

## Progress against Protecting the Public Purse Recommendations

Recommendation	Response
Councils continue to focus on benefit fraud risks and use the National Fraud Initiative (NFI) and other data-matching schemes to maintain and improve their good performance in detecting benefit fraud	The benefits fraud team have a proven track record of significant success in prosecuting fraud and NFI and in-house data matching is used regularly to prevent fraud
Use Audit Commission's comparator tool to decide whether to take more action to tackle Single Persons Discount (SPD) fraud and: Check claims for other council tax discounts are not fraudulent	Comparator tool used and significant work already taking place on SPD yielding net savings of £40k Checks on other discounts will be carried out as part of the 2010/11 audit plan
Ensure recruitment processes for permanent and temporary staff are secure, follow good practice and are working effectively	Recruitment risk is recognized as significant and is designated as a strategic risk. Human resources policies are regularly audited. Recruitment and Selection procedures were reviewed in July 2010 and Internal Audit were able to provide adequate assurance on the effectiveness of internal controls
For personal budgets in adult social care: - Establish a clear policy, which is communicated to budget holders on the appropriate use and unacceptable misuse of personal budget; and - Promote whistle-blowing arrangements for staff, care providers and public to encourage early identification of potential abuse	Significant promotion of counter fraud arrangements including the whistleblowers' hotline has been carried out throughout the year (posters, leaflets, Direct magazine article, PC screen saver, counter fraud newsletter, council wide communications etc). A leaflet summarizing the revised Counter Fraud Strategy will be sent to all employees early in the new year.
Use advice from CIPFA and the Office of Fair Trading (OFT) on procurement to ensure they are doing enough to prevent	Contract Procedure Rules have been reviewed and strengthened. This includes better controls through the

and detect procurement fraud and other illegal activities such as cartels	mandatory use of SCMS (electronic tendering software) for all contracts above £10k. Declarations of non-collusion are enforced for all contracts.
Keep a comprehensive record of any frauds perpetrated	A comprehensive record has been maintained since 1996
Use the report's checklist to assess whether the council's counter fraud plan and actions are effective in the light of the risks highlighted	An evaluation against the checklist is provided in appendix B

## Checklist for Those Charged with Governance

General	Yes	No	Comments/Action
1. Do we have a zero-tolerance towards fraud?	√		Emphasized more clearly in the counter fraud strategy
2. Do we have an appropriate approach, counter-fraud strategies, policies and plans?	√		Strategy, policies and plan were developed and improved over a number of years. Outcomes in terms of number and level of frauds would suggest they are effective. They are measured against best practice as defined by CIPFA. External audit has recognized improvement and considers good arrangements are in place as reported in the VFM report in September
3. Do we have dedicated counter-fraud resources?	√		In addition to the benefits fraud team there are dedicated audit resources set aside in the audit plan
4. Do the resources cover all activities of our organisation?	√		All activities are identified and risk assessed for audit coverage
5. Do we receive regular reports on fraud risks, plans and outcomes?	√		Counter fraud work and outcomes are regularly reported to the Audit Committee
6. Have we assessed our management of counter-fraud resources against good practice?	√		As members of the Better Governance Forum (CIPFA) and National Anti Fraud Network arrangements are measured against good practice
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> <li>• new staff</li> </ul>	√		Fraud risk is included appropriate corporate training sessions

<ul style="list-style-type: none"> <li>• existing staff</li> <li>• elected members</li> <li>• our contractors?</li> </ul>			
8. Do we work appropriately with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	√		See above. Fraud alerts and newsletters are received from these organizations of new and emerging risks. Chief Internal Auditor network also provides some information on fraud risk and investigation outcomes
9. Have we agreed to work with relevant organizations to ensure effective sharing of knowledge and data about fraud?	√		As a member of the National Anti Fraud Network information exchange helps manage the council's fraud risk and exposure profile
10. Do we identify areas where our internal controls may not be performing as well as intended?	√		Reported in IA annual report
11. Do we maximize the benefit of our participation in the Audit Commission NFI and receive reports from it on outcomes?	√		Report provided to members
12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	√		Policy, training and publicity provided for targeted staff
13. Do we have effective whistle blowing arrangements?	√		Good level of usage, well publicized, encouraging survey results
14. Do we have effective fidelity insurance arrangements?	√		Effective arrangements are in place
<b>Fighting fraud in the Post- Recession Environment</b>			
15. Have we reassessed our fraud risks in the light of the current financial climate?	√		Fraud exposure profile and risk assessment updated. More proactive work to mitigate the risk; counter fraud review and publicizing
16. Have we amended our counter- fraud action plan as a result?	√		Fraud risk profile has been updated and further proactive counter fraud work has been carried out to raise awareness



17. Have we reallocated staff as a result?	√		More counter fraud work carried out
<b>Current Risks and Issues</b>			
<b>Procurement</b>			
18. Are we satisfied procurement controls are working as intended?	√		<p>Procurement controls are tested through various Internal Audit reviews each year. The procurement manual has been strengthened including authorization controls. This includes better controls through the mandatory use of SCMS (electronic tendering software) for all contracts above £10k</p> <p>Expert guidance and training is provided by the procurement team</p> <p>Analytical review of off contract spend is monitored and challenged with Service Directors</p>
19. Have we reviewed our contract letting procedures since the investigations by the OFT into cartels and compared them with best practice?	√		Contract procedures rules and the procurement manual have been reviewed and strengthened
<b>Recruitment</b>			
<p>20. Are we satisfied our recruitment procedures:</p> <ul style="list-style-type: none"> <li>- Prevent the employment of people working under false identities</li> <li>- Validate employment references effectively</li> <li>- Ensure applicants are eligible to work in the UK</li> <li>- Ensure agencies supplying us with staff undertake the checks that we require?</li> </ul>	√		<p>Established procedures and training are in place</p> <p>July 2010 Internal Audit review provided adequate assurance on the procedures in place</p> <p>NFI (data matching) results have highlighted no cases of employees ineligible to work in the UK</p> <p>Established agency staff framework agreements include responsibility for</p>

			carrying out essential checks on candidates
<b>Personal Budgets</b>			
21. Where we are expanding the use of personal budgets for social care, in particular direct payments, have we introduced appropriate safeguarding arrangements proportionate to risk and in line with recommended good practice?	√		Internal Audit has worked with service managers during the year to develop arrangements in line with best practice and ensured that important controls are in place such as reconciliation of payments.
<b>Council Tax</b>			
22. Are we effectively controlling the discounts and allowances we give to council taxpayers?	√		Experian/ NFI (data matching) exercises are regularly carried out to highlight apparent anomalies which suggest discounts are being inappropriately claimed for further investigation The Whistle-Blowers' hotline is well publicized. All calls received are investigated
<b>Housing and Council Tax Benefits</b>			
23. Are we tackling housing and council tax benefit fraud do we make full use of: -The NFI - Dept for Work and Pensions Housing Benefit Matching service - Internal data matching - Private sector data matching	√		The Benefits Fraud Team has a strong track record in tackling fraud and uses all available data matching opportunities.