

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**COUNTER FRAUD POLICIES AND STANDARDS**

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

- 1.1 To provide the Audit Committee with an appropriate level of assurance that counter fraud arrangements are adequate.
- 1.2 To ask the Committee to approve the updated counter fraud strategy.

**2. BACKGROUND INFORMATION**

- 2.1 The Counter Fraud Strategy sets out the council's determination to deter, prevent and detect fraud and safeguard its assets. The Strategy is revised periodically to reflect changes in legislation and recommended best practice guidance. This ensures that the council remains at the forefront of the prevention and detection of fraud and corruption.
- 2.2 The Strategy encompasses policies and procedures that collectively help drive down the risk of fraud and provide a framework to investigate instances of potential fraud. The Counter Fraud Strategy is attached in appendix A. The main change is to streamline the Strategy and supporting appendices by removing repetition and signposting to other procedures and policies for more detail of use in practice. Important legislative changes are reflected in the Strategy including a new Bribery Act and changes to Money Laundering requirements for local authorities as prescribed by CIPFA guidance (the 3<sup>rd</sup> Money Laundering Directive revises penalties in respect of offences of failing to report and 'tipping off' and the status of the money laundering responsible officer). These changes strengthen existing arrangements in response to new and emerging risks.
- 2.3 Counter fraud work continues to be an important feature in the audit plan. Resources have been identified for preventative work and a contingency for responsive work such as investigations. During 2010/2011 greater emphasis has been placed on counter fraud work in response to CIPFA and Audit Commission guidance and the increased

risk of fraud across the public sector as a result of the recession. A summary of the work is provided in appendix B.

2.4 Promotional work reported to members in June 2010 on the council's counter fraud arrangements and warning bulletins issued via the council wide communication network of potential new or emerging risks of fraud has helped raise awareness of the council's determination to counter fraud. The highly popular quarterly counter fraud newsletter 'Fraud Focus' provides an important opportunity to remind staff of counter fraud policies and emerging risks. Important contributions have been made by colleagues across the council involved in countering fraud. November's edition is attached in appendix C and contains an article on the work of Trading Standards and Benefits Fraud Team work will feature in the next edition. A payslip insert summarising the main points of the Counter Fraud Strategy is planned for the end of January.

2.5 Revamped Whistle Blowers' hotline posters and leaflets have been sent to all council premises (except schools- which will be sent in January after the Christmas break). Referrals received via the Whistleblowers' hotline have increased steadily over the last few years:

Year	Referrals received
2005/2006	89
2006/2007	147
2007/2008	164
2008/2009	194
2009/2010	256*
2010/2011 to (end of Nov)	140

(\* high number of spurious calls -67)

This would indicate that:

- The facility is properly promoted
- Users feel confident to use it.

2.6 The rate of investigations carried out by internal audit has slowed in the third quarter of the year (18 reported to members in September rising to 25 by the end of Dec). Overall numbers have increased on last year; 25 (to end of Dec) compared with 27 during 2009/10. The cases mainly represent small scale cash anomalies, all are investigated and appropriate action is taken by human resources where appropriate and improvements to control issues have been recommended. Several cases have not yet been concluded however 1 member of staff was dismissed, 4 officers have resigned, an agency worker is no longer employed by the council and 4 officers have received verbal warnings. Police referrals are also considered where appropriate. A strong counter fraud deterrent message was sent through an article in the Telegraph in November which reported on the outcome of the criminal prosecution of a former leisure centre manager. The article highlighted

the fraud was discovered and investigated by Internal Audit and resulted in a three month suspended sentence; 240 hours unpaid work and repayment of compensation and costs.

In addition Human Resources have led on a further 14 investigations. These comprise of timesheet and expenses anomalies and have resulted in one dismissal, 3 resignations and 5 warnings issued.

2.7 A significant attempted fraud (£0.6m) against the council was averted. This involved an attempt from outside the council to falsify a request to change the bank details of a genuine creditor to fraudulently divert payment. The payment was frozen and the Police contacted. The money has been fully recovered and Police enquiries are ongoing. It is believed to be part of large scale fraud on a national or potentially international scale and details have been passed to our police contact within the Economic Crime Unit who specialise in this type of fraud. Notwithstanding the failure of this fraud a full risk assessment and evaluation of controls was undertaken across all areas dealing with payments to ensure no further attempts could be successful. Additional controls have been introduced and council wide communications have been issued to remind staff to be vigilant and check the validity of all requests to change bank details.

2.8 The Benefits Fraud Team continues to work proactively and has achieved successful outcomes. The Team has successfully prosecuted 14 cases at court whilst a further 72 people have received either official cautions or administrative penalties. There are many more ongoing cases and it would appear that last years performance will be exceeded.

One joint prosecution case with DWP for £30k is due back at Grimsby Crown Court in January for sentencing and a further 3 other cases are currently at court. We have 10 other prosecution cases with the council's Legal Department and the DWP solicitors. There are more being prepared.

2.9 A good partnership has been developed with DWP and 42% of our successful results are joint investigations with DWP.

2.10 The Benefits Fraud Team has also successfully used a new government initiative designed to be tough on benefit cheats. The new sanction 'One Strike' allows benefits to be temporarily stopped. In the first case in North Lincolnshire an offender was formally cautioned after claiming more than £631 in council tax and housing benefit and benefits stopped for 4 weeks. The case was reported in the Scunthorpe Telegraph in November and provides an important deterrent message.

2.11 The Audit Commission's National Fraud Initiative (Data Matching) exercise 2010-2011 data sets will be received in February for investigation during the coming year. During 2010-2011 interim work

on the 2009/10 NFI exercise on council tax and electoral roll matches has been concluded. Single Residence Discount (SRD) totalling £88,942 was cancelled however the net figure is reduced to £40k after taking into consideration other benefits and disregard discounts attracted. Confirmation has been received NFI will continue after 2010/11 and discussions are underway with CLG to effect the transfer to another host organisation.

- 2.12 The Audit Commissions annual report on fraud 'Protecting the Public Purse' was issued in October. Its main messages and council's response are reported in a separate report elsewhere on this agenda.

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

- 3.1 The Committee is asked to consider whether the Counter Fraud Strategy will provide sufficient assurance on the council's counter fraud arrangements in 2010/2011 and 2011/2012. If it concludes that it does provide sufficient assurance the Committee is invited to approve the Strategy as shown in appendix A. The Committee may make amendments or seek clarification as necessary. Members are also asked to consider whether regular reports on proactive and reactive fraud work (similar to those shown in appendix B) will provide sufficient assurance on the adequacy of counter fraud arrangements during 2010/2011 and 2011/2012.
- 3.2 The Committee may decide not to approve or amend the Counter Fraud Strategy. The Committee may also decide that a system of regular update reports will not provide sufficient assurance on the adequacy of counter fraud arrangements in place and may seek alternative arrangements.

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

- 4.1 The Counter Fraud Strategy complies with statutory requirements and professional guidance available and is designed to provide this Committee with the assurance required. Members should ask sufficient questions to ensure the Strategy will provide 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 revising the strategy, and implementing the counter fraud actions 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 of staff in revisions to the strategy and investigation procedures will be met from the training 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 An effective Counter Fraud Strategy demonstrates 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 (as amended by the Serious Organised Crime and Police Act 2005), Terrorism Act 2000 (as amended by the Anti Terrorism and Security Act 2001 and Terrorism Act 2006) and the Money Laundering Regulations 2003 and 2007.

- 6.2 The Diversity Impact Assessment tool has been applied to ensure that further consultation is not required.

## **7. OUTCOMES OF CONSULTATION**

- 7.1 The Counter Fraud Strategy has been revised in consultation with relevant staff from Finance, Human Resources and Legal and Democratic Services to ensure compliance with relevant legislation and council procedures.

## 8. RECOMMENDATIONS

- 8.1 The Audit Committee should consider whether the Counter Fraud Strategy and counter fraud work programme delivers a sufficient level of assurance on the adequacy of counter fraud arrangements.
- 8.2 The Audit Committee approves the Counter Fraud Strategy.

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#### **Background Papers used in the preparation of this report :**

CIPFA – Combating Financial Crime Further Guidance on Anti Money Laundering for Public Sector Organisations  
CIPFA Risk of Fraud Red Book