

**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 2013.
- 1.2 To 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's latest annual counter fraud report, Protecting the Public Purse 2013 was published in November. The report provides those charged with governance in local government with information of councils' experience of fraud during 2012/13 and guidance on how they can fight fraud more effectively.
- 2.2 The report shows public sector fraud continues to be a significant problem:
  - Fraud costs UK public sector organisations £20.6 billion a year and local government more than £2 billion.
  - In a time of austerity, preventing fraud is even more important to eradicate the impact on providing public services.
- 2.3 Local government organisations detected fewer frauds in 2012/13 (excluding tenancy fraud), however significant amounts of money are involved nationally:
  - Detected fraud in 2012/13 amounting to £178 million (a small decrease of 1% compared with 2011/12); and
  - 107,000 individual fraud cases (a decrease of 14% compared to 2011/12).
- 2.4 The report highlights high risk areas and new and emerging fraud issues:

- Action to tackle housing tenancy fraud has increased. Last year councils recovered over 2,600 homes from fraudsters with a replacement value of almost £400 million; this represents a 51% increase on last year.
- 149 cases of fraudulent business rate discounts were detected, amounting to £7.2 million. Overall there was a 53% decrease in cases however the value increased by 177%, (although one council lost £5 million which skewed the reported figures but does demonstrate the magnitude of loss that a council can suffer).
- Housing and council tax benefits fraud accounted for over two thirds of the total non-tenancy fraud loss detected by councils, at a value of £120 million (an increase of 3% on 2011/12) but only 44% of the total cases detected during 2012/13.
- Fraudulent claims for council tax discounts accounted for £19.6 million (a decrease of 7% on 2011/12). The number of detected cases also fell by 12% to 54,000. This may be because some councils prefer to align their detection activities to the 2 yearly NFI data matching timetable.
- 200 social care fraud cases were detected with a value of £4m this represents 64% increase in cases and 82% increase in value on the previous year.
- 203 cases (8% increase on 2011/12) of procurement fraud identified by councils amounted to £1.9 million.(77% decrease on 11/12 )
- Counter fraud experts have identified the following emerging risk areas:
  - Social fund and welfare assistance payments
  - Social care, including direct payments
  - Business rates and Local Council Tax Support
  - Right to buy discounts
  - False insurance claims
  - Disabled parking concessions (blue badges)
  - Frauds against schools
  - Grants.

These areas were recognised and are included in the audit plan (where applicable). The outcome of this work will be reported in the Internal Audit Annual Report presented to the committee in June

- 2.5 The report highlighted that 76% of all non-benefit frauds found were detected by 25% of councils. Some councils, notably 79 district councils, reported no detected non-benefit fraud. Some councils reported reduced capacity to investigate fraud and all councils need to consider how they prioritise resources. 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.
- 2.6 Overall the level of fraud is relatively low within the council as reported in the survey. Over 90% of all proven fraud detected by North Lincolnshire Council is housing benefit fraud. However the number of benefit frauds fell significantly in 2012/13 (from 921 to 268 cases) due to the completion of a two-year joint exercise with DWP. The level of none benefit fraud decreased slightly (28 cases in 2011/12 to 27 cases during 2012/13).
- 2.7 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 is reviewed regularly to ensure compliance with best practice 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 (NAFN) 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. Opportunities to work in partnership with other relevant organisations such as North Lincolnshire Homes have been explored. Protocols have been established with human resources colleagues and police liaison officers to efficiently investigate and prosecute fraud.
- 2.8 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 or not the Audit Commission's report and the council's response provide sufficient assurance on the adequacy of counter fraud arrangements during 2013/2014.

#### **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.

#### **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 2013/2014 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. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

6.1 An Integrated Impact Assessment is not required.

#### **7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

7.1 There has been no consultation as this report presents the key messages contained in the Protecting the Public Purse report.

7.2 There are no conflicts of interests to declare.

## 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.
- 8.2 The Audit Committee should note:
- i) The response to the report's recommendations set out in appendix A; and
  - ii) The assessment against the checklist of best practice arrangements shown in appendix B.

### DIRECTOR OF POLICY AND RESOURCES

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**Background Papers used in the preparation of this report:**  
Audit Commission Report – Protecting the Public Purse 2013

## Progress against Protecting the Public Purse Recommendations

Recommendation	Response
<b>All local government bodies should:</b>	
Councils should use our checklist for those charged with governance to review their counter-fraud arrangements	An evaluation against the checklist is provided in appendix B (updated)
Actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI)	The council has a good track record of thoroughly investigating all matches appropriately and meeting all submission deadlines.
<b>Councils in particular should:</b>	
Actively promote a vigorous counter-fraud culture;	
<ul style="list-style-type: none"> <li>Enforcing robust sanctions for fraud and publicise the action taken to enhance local deterrence</li> </ul>	Anonymous data is included in the fraud focus as deterrent, council wide messages are also circulated. Further use of all sanctions was agreed as part of a review of the disciplinary policy, which is being reviewed again as part of the 2013/14 audit plan
<ul style="list-style-type: none"> <li>Encouraging councilors to play an enhanced role in managing the risk of fraud effectively</li> </ul>	Counter fraud training for members is provided each year. Councilors approve the counter fraud strategy and receive quarterly reports on counter fraud work, and PPP results annually.
<ul style="list-style-type: none"> <li>Reviewing whistle-blowing arrangements in line with current best practice and applying lessons learned from the findings of the 2013 Public Concern at work research on whistle-blowing</li> </ul>	A review has taken place and incorporated into an update of the Counter Fraud Strategy.

<b>Develop a clear strategy to tackle fraud by;</b>	
<ul style="list-style-type: none"> <li>Reviewing the Counter Fraud Strategy in the context of the National Fighting Fraud Locally (FFL) strategy to tackle LA fraud</li> </ul>	The Strategy is reviewed annually against all developments, including the National Fraud Authority (NFA) Strategy and FFL.
<ul style="list-style-type: none"> <li>Reviewing arrangements against FFL good practice guidance to be issued in 2013 and 2014 about frauds in schools, business rates and personal budgets</li> </ul>	Fighting Fraud Locally recommendations were addressed in the 2012/13 and 2013/14 counter fraud plans.
<b>Work in partnership to reduce fraud by;</b>	
<ul style="list-style-type: none"> <li>Considering how to maximise the benefit of the Prevention of Social Housing Fraud Act, including closer partnership working with local housing associations</li> </ul>	An initial meeting has been held to look at working with NLH on tenancy fraud, information on best practice approach have been shared and an article on tenancy fraud will appear in the next edition of the counter fraud newsletter 'Fraud Focus'
<ul style="list-style-type: none"> <li>Exploring joint working with other councils, particularly smaller councils with limited investigative capacity</li> </ul>	Counter fraud issues receive significant profile within local groups. Well established Chief Auditor networking with neighbouring councils provides a forum to share intelligence on fraud experience. Further opportunities will be explored at the next Chief Auditor's meeting.
<ul style="list-style-type: none"> <li>Realising the benefits of county councils and district councils working together to tackle blue badge fraud in two tier areas</li> </ul>	n/a
<b>Prepare effectively for the introduction of the Single Fraud Investigation Service by;</b>	
<ul style="list-style-type: none"> <li>Considering the impact the SFIS will have on capacity to tackle non benefit fraud</li> </ul>	In the Autumn Statement 2013 contained the government announcement of a national roll out of a <b>Single Fraud Investigation Service</b> from October 2014 to investigate welfare fraud across all benefits administered by DWP, HMRC and local authorities Work is ongoing with the Benefit Fraud Team concerning future fraud investigation requirements.
<ul style="list-style-type: none"> <li>Maintaining a capability to investigate non benefit related fraud, proportionate to risk</li> </ul>	
<ul style="list-style-type: none"> <li>Working with SFIS to ensure the approach taken to tackle benefit fraud continues to reflect local priorities</li> </ul>	

and risks	
<b>Allocate sufficient resources to tackling fraud by;</b>	
<ul style="list-style-type: none"> <li>Focusing more on detecting and recording non benefit fraud</li> </ul>	Records of all potential frauds are maintained along with outcome and action taken and recovery of losses in order to complete the annual fraud survey
<ul style="list-style-type: none"> <li>Targeting their counter fraud resources where they will produce the most benefit, assessing the risk of harm against the measures needed to reduce it</li> </ul>	Exposure profiles and risk assessments are maintained to highlight high risk areas. A risk based approach is adopted for all potential benefit fraud investigations. Fraud risk consequences are highlighted in audit recommendations.
<b>Improve use of data to measure performance in tackling fraud by</b>	
<ul style="list-style-type: none"> <li>Challenging performance in tackling non benefit fraud in particular against results achieved by the top performing councils</li> </ul>	NFA toolkit was used to evaluate arrangements. Best practice is considered as appropriate. Process benchmarking is used via Chief Auditor networking
<ul style="list-style-type: none"> <li>Considering whether to apply the NFA's Annual Fraud Indicator methodology to assess local impact of the most financially significant frauds</li> </ul>	The indicator is used in conjunction with the fraud risk assessment and risk exposure. The results inform the audit plan of proactive counter fraud work.
<ul style="list-style-type: none"> <li>Maximizing the benefits of reporting frauds through the Action Fraud website</li> </ul>	No appropriate cases to report but the website is used for news of new and emerging fraud risks.
<ul style="list-style-type: none"> <li>Requesting an individual fraud briefing from the external auditor</li> </ul>	This will be discussed with KPMG

## Checklist for those charged with Governance

General	Yes	No	Comments/Action
1. Do we have a zero-tolerance towards fraud?	√		Emphasised more clearly in the counter fraud strategy
2. Do we have an appropriate approach, counter-fraud strategies, policies and plans? <i>Have we aligned our strategy with Fighting Fraud Locally?</i>	√		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 recognised improvement and has reported good arrangements are in place. (Arrangements have been evaluated against Fighting Fraud Locally)
3. Do we have dedicated counter-fraud staff?	√		In addition to the benefits fraud team dedicated audit resources are set aside in the audit plan
4. Do counter-fraud staff review all work of our organization?	√		All activities are identified and risk assessed for audit coverage
5. Do we receive regular reports on how well we are tackling fraud risks, carrying out 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. The National Fraud Authority (NFA) has also developed an online toolkit to assess the effectiveness of local counter fraud arrangements. The

			result shows the council to be in the 71st percentile and therefore has effective counter fraud arrangements in place.
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> <li>• new staff (including agency staff)</li> <li>• existing staff</li> <li>• elected members</li> <li>• our contractors</li> </ul>	√		Fraud risk is included appropriate corporate training sessions Counter fraud newsletters are regularly published to raise awareness on new and emerging fraud risks.
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. Do we work well with other organizations to ensure we effectively share knowledge and data about fraud and fraudsters?	√		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? How quickly do we take action?	√		Weaknesses are reported immediately to managers – action is required based on the nature of the weakness. Issues are reported to members through quarterly update reports and the IA annual report
11. Do we maximize the benefit of our participation in the Audit Commission NFI and receive reports on the matches investigated?	√		Regular updates are provided on progress and outcomes reported when investigations are completed.
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 whistleblowing arrangements?	√		Arrangement meet best practice; there is a good level of usage and it is well publicised.
14. Do we have effective fidelity insurance arrangements?	√		Yes

<b>Fighting fraud with reduced resources</b>			
15. Have we reassessed our fraud risks since the change in the financial climate?	√		Fraud exposure profile and risk assessment have been updated. More proactive work is carried out to mitigate the risk; including risk assessed audit reviews, publicizing outcome to deter fraud and raising awareness through training and targeted publicity
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?	√		Risk assessments have resulted in more counter fraud work carried out within the audit plan
<b>Current Risks and Issues</b>			
<b>Housing Tenancy</b>			
18. Do we have proper action to ensure that we only allocate social housing to those who are eligible	√		A recent audit provided adequate assurance that appropriate arrangements were in place.
19. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated			Data matching would highlight some anomalies however consideration of further checks is to be discussed with NLH.
<b>Procurement</b>			
20. Are we satisfied procurement controls are working as intended?	√		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 YorTender (electronic tendering software) for all contracts above £10k Expert guidance and training is provided by the procurement team Analytical review of off contract spend is monitored and challenged with Service Directors
21. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	√		Contract procedures rules and the procurement manual have been reviewed and strengthened
<b>Recruitment</b>			
22. Are we satisfied our recruitment procedures to achieve the following:: <ul style="list-style-type: none"> <li>- Do they prevent us employing people working under false identities?</li> <li>- Do they confirm employment references effectively?</li> <li>- Do they ensure applicants are eligible to work in the UK?</li> <li>- Do they require agencies supplying us with staff to undertake the checks that we require?</li> </ul>	√		Established procedures and training are in place. Internal Audit review procedures as part of the audit plan (the current audit includes compliance against NFA CIFAS recommended best practice guidance 'Slipping through the net') NFI (data matching) results have highlighted no cases of employees ineligible to work in the UK Established agency staff framework agreements include responsibility for carrying out essential checks on candidates
<b>Personal Budgets</b>			
23. 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. Counter fraud arrangements in personal budgets

			and direct payments have been audited and a referral process has been established.
24. Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?			A general publicity campaign to raise awareness on whistleblowing arrangements has taken place and further work is ongoing specifically dealing with personal budgets. However targeted publicity is also being considered.
<b>Council Tax</b>			
25. 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 publicised. All calls received processed for investigation.
<b>Housing and Council Tax Benefits</b>			
26. Are we tackling housing and council tax benefit fraud do we make full use of the following: - National Fraud Initiative? - 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.
27. Do we have appropriate and proportionate defences against new and emerging fraud risks - Business rates - Right to Buy - Social Fund and Welfare Assistance	√		New areas such as Local Council Tax Support and Welfare Assistance were included for review in the 2012/13 plan. There are well established arrangements to counter fraud in schools including; regular

<ul style="list-style-type: none"><li>- Local Council Tax support</li><li>- Schools and</li><li>- Grants</li></ul>			audits; data matching; awareness campaigns; specific investigations and recommendations to adopt council counter fraud policies. Consultation on further opportunities including risks emerging from conversion to academy will be pursued through the schools forum.
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