

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 2012.
- 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 publishes annual counter fraud reports – Protecting the Public Purse. The latest report, issued in November, shows fraud continues to be a significant problem affecting the whole economy. In 2012, the National Fraud Authority (NFA) estimated that:
 - All sectors and individuals lose over £73 billion to fraud each year
 - Fraud against public sector organisations costs £20.3 billion and fraud against local government costs more than £2.2 billion a year.
- 2.2 For local government, although detected fraud losses are low compared with total council spend, significant amounts of money are involved nationally:
 - Detected fraud in 2011/12 amounting to £179 million (a small decrease of 3% compared with 2010/11); and
 - 124,000 individual fraud cases (a small increase of 2% compared to 2010/11).
- 2.3 The report highlights high risk areas and new and emerging fraud issues:
 - Housing tenancy fraud – an estimated 98,000 homes are subject to tenancy fraud. Last year councils recovered nearly 1,800 homes from fraudsters with a replacement value of almost £264 million.

- Fraudulent claims for council tax discounts – more than £21 million of false claims for student and single person council tax discounts was detected by councils
- 187 cases of procurement fraud identified by councils amounted to £8 million.
- Housing and council tax benefits fraud losses accounted for half of the total fraud losses detected by councils, to a value of £117 million
- Counter fraud experts have identified the following emerging risk areas:
 - Social fund and welfare assistance payments
 - Business rates and Local Council Tax Support
 - Right to buy discounts
 - 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.

- 2.4 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.
- 2.5 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 (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. Protocols have been established with human resources colleagues and police liaison officers to efficiently investigate and prosecute fraud.

- 2.6 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 2012/2013.
- 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 2012/2013 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, Money Laundering Regulations 2007, Fraud Act 2006 and Bribery Act 2010.

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.

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 2012

Progress against Protecting the Public Purse Recommendations

Recommendation	Response
Councils should ensure they keep the capability to investigate fraud that is not related to housing benefit	Investigation expertise is available in both internal audit and benefit fraud teams and resources and training requirements are regularly reviewed.
Councils should review their counter-fraud arrangements in the context of the NFA's strategy for local government, <i>Fighting Fraud Locally</i>	Fighting Fraud Locally recommendations have been either addressed in the 2012/13 counter fraud plan or carried forward to the 2013/14 plan.
Councils should refresh local strategies to tackle tenancy fraud, to reflect the findings of our research into the nature of such fraud. Engage effectively with the Tenancy Fraud Forum to access good practice in tackling tenancy fraud. Share other resources with other social housing providers to tackle tenancy fraud	In addition to extensive checks already carried out to tackle council tax fraud, current arrangements will be evaluated against the NFA's good practice guide when available. In the meantime other best practice is being considered along with further work with North Lincolnshire Homes.
Use the tool produced by the London Public Sector Counter Partnership to help prevent and detect procurement fraud	This counter fraud tool is being considered.
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.
Maintain robust staff recruitment and internal controls to guard against internal fraud	The guidance is being considered as part of the recruitment audit currently underway.

Remain vigilant to mandate fraud (formerly known as change of bank details fraud)	Procedures were strengthened following an attempt to fraudulently divert a creditor payment in 2010. In addition NAFN alerts on the evolution of this fraud are monitored and circulated to ensure procedures are robust in this area.
Ensure they have effective and proportionate defences against emerging fraud risks, including business rates, Right to Buy discounts, Local Council Tax discount fraud	New and emerging risks have been included in the council's fraud risk exposure profile and included in the 2012/13 audit plan or will be carried forward to the 2014/15 plan.
Explore partnership and funding arrangements in two tier areas to incentivise district councils to investigate council tax discount fraud	N/a
Assess the potential benefits and cost savings of greater joint working with other councils	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.
Councils should apply the NFA's good practice guidance and tools , and the examples of good practice highlighted in the PPP12, and match the successes the best in the sector in tackling fraud	The council has a comprehensive and well established counter fraud framework which has been developed in response to best practice and guidance available. This is demonstrated through responses provided to some of the questions above. Good practice guidance will be considered further.
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)

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 will be 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"> • new staff (including agency staff) • existing staff • elected members • our contractors? 	√		Fraud risk is included appropriate corporate training sessions
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 form 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?	√		Good level of usage, well publicized, encouraging survey results
14. Do we have effective fidelity insurance arrangements?	√		Yes

Fighting fraud with reduced resources			
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
Current Risks and Issues			
Housing Tenancy			
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.
Procurement			
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 SCMS

			(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
Recruitment			
22. Are we satisfied our recruitment procedures to achieve the following:: <ul style="list-style-type: none"> - Do they prevent us employing people working under false identities? - Do they confirm employment references effectively? - Do they ensure applicants are eligible to work in the UK? - Do they require agencies supplying us with staff to undertake the checks that we require? 	√		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
Personal Budgets			
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.
Council Tax			
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 are investigated
Housing and Council Tax Benefits			
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 - Local Council Tax support			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 audits; data matching; awareness

<ul style="list-style-type: none">- Schools and- Grants			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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