

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT SUB-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 November shows fraud continues to be a significant problem affecting the whole economy. In 2011, the National Fraud Authority (NFA) estimated that:
  - All sectors and individuals lose over £38 billion to fraud each year
  - Fraud against public sector organizations costs £21.2 billion and fraud against councils costs more than £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 2010/11 amounting to £185m (an increase of 37% compared with 2009/10); and
  - 121,000 individual fraud cases.
- 2.3 The report highlights high risk areas and new and emerging fraud issues:
  - Housing tenancy fraud – is estimated to cost the public purse £900 million each year
  - Fraudulent claims for council tax discounts – more than £22 million of false claims for student and single person council tax discounts was detected by councils

- Housing and council tax benefits fraud losses account for half of the total fraud losses detected by councils.
- Counter fraud experts highlight abuse of personal budgets in adult social care as an emerging risk area; and
- 145 cases of procurement fraud identified by councils amounted to £14.6m.

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.

- 2.4 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 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 Sub-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 2011/2012.
- 3.2 The Sub-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 Sub-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 2011/2012 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, the Money Laundering Regulations 2003 and 2007 and Bribery Act 2010.

## 7. OUTCOMES OF CONSULTATION

- 7.1 There are no consultation outcomes to report

## 8. RECOMMENDATIONS

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

DIRECTOR OF FINANCE

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**Background Papers used in the preparation of this report :**  
Audit Commission Report – Protecting the Public Purse 2011

## 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 are regularly reviewed. The impact of government changes will also be reviewed and evaluated.
Councils should improve their use of data, information and intelligence to focus their counter-fraud work	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
Councils should review their counter-fraud arrangements in the context of the NFA's strategy for local government, <i>Fighting Fraud Locally</i> , to be published shortly	This will be evaluated when available
Councils should work with other registered social housing providers to improve the use of civil and criminal action to deter tenancy fraudsters	Data is provided the NFI (data matching) exercises
Councils should use the Audit Commission's council tax single person discount (SPD) fraud predictor toolkit to assess the potential level of such fraud locally	Comparator tool used and significant work already taking place on SPD yielding net savings of approx £50k. Checks on other discounts are carried out as part of the 2011/12 audit plan
Councils should review their performance against the NFA's good practice on tackling housing tenancy fraud and council tax 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.
Councils should ensure the National Fraud Initiative (NFI) data matches are followed up effectively, including those	The council has a good track record of thoroughly investigating all matches appropriately and meeting all

targeting council tax discount abuse (next data release due in February 2012)	submission deadlines.
Councils should review personal budgets arrangements to ensure safeguarding and whistleblowing arrangements are proportionate to the fraud risk	Arrangements have been evaluated as adequate
Councils should follow good practice and match the successes of others	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
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

## 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 Sub-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 (including agency staff)</li> <li>• existing staff</li> </ul>	√		Fraud risk is included appropriate corporate training sessions

<ul style="list-style-type: none"> <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. 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?	√		
<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>Procurement</b>			
18. 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
19. 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>			
20. Are we satisfied our recruitment procedures to achieve the following:: - Do they prevent us employing people working	√		Established procedures and training are in place. Internal Audit review procedures as part of the audit plan (last reviewed July

<p>under false identities?</p> <ul style="list-style-type: none"> <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 undertake the checks that we require?</li> </ul>			<p>2010) 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</p>
<b>Personal Budgets</b>			
<p>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?</p>	√		<p>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.</p>
<p>22. Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?</p>			<p>A general publicity campaign to raise awareness on whistleblowing arrangements has taken place and further work is ongoing specifically dealing with personal budgets.</p>
<b>Council Tax</b>			
<p>23. Are we effectively controlling the discounts and allowances we give to council taxpayers?</p>	√		<p>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</p>
<b>Housing and Council Tax Benefits</b>			
<p>24. Are we tackling housing and council tax benefit fraud do we make full use of the following:</p>	√		<p>The Benefits Fraud Team has a strong track record in tackling fraud and uses all</p>

<ul style="list-style-type: none"><li>-National Fraud Initiative?</li><li>- Dept for Work and Pensions Housing Benefit Matching service?</li><li>- Internal data matching?</li><li>- Private sector data matching?</li></ul>			available data matching opportunities.
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