
Report to: Audit & Governance Committee **Date of Meeting:** 28th March 2012

Subject: Audit Commission Report: Protecting the Public Purse

Report of: Head of Corporate Finance & ICT **Wards Affected:** All

Is this a Key Decision? No

Is it included in the Forward Plan?
No

Exempt/Confidential

No

Purpose/Summary

To inform the Audit & Governance Committee of the Audit Commission's publication Protecting the Public Purse (Fighting Fraud against Local Government); outline Sefton's response by identifying the Councils current actions to respond to the risk of Fraud and identify any potential gaps / weaknesses in the Council's strategy / plan.

Recommendation(s)

Members are requested to consider and note the report and endorse Sefton's response action plan / way forward to the publication.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community	✓		
2	Jobs and Prosperity	✓		
3	Environmental Sustainability	✓		
4	Health and Well-Being	✓		
5	Children and Young People	✓		
6	Creating Safe Communities	✓		
7	Creating Inclusive Communities	✓		
8	Improving the Quality of Council Services and Strengthening Local Democracy	✓		

Reasons for the Recommendation:

The Audit and Governance Committee, as those charged with governance, are required to be apprised of and review work undertaken in respect of the reactive and proactive response to fraud. The Audit Commissions publication – "*Protecting the Public Purse (Fighting Fraud against Local Government)*" highlights emerging fraud issues and

review's Local Authorities progress in tackling significant risks, it also provides recommendations for Council's to consider in order to reduce the risk of fraud. Significant savings can be made by Council's by reducing fraud, which can help protect frontline jobs and services.

What will it cost and how will it be financed?

There are no current financial implications associated with the proposals in this report.

(A) Revenue Costs

(B) Capital Costs

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	
Human Resources	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

Internal Audit provide assurance to the Council that appropriate actions are undertaken in respect of fraud risks within the service areas delivered by the Council ensuring that the public purse is protected in order to provide for effective and efficient service delivery for the community.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD1450) and Head of Corporate Legal Services (LD802) have been consulted and any comments have been incorporated into the report.

Audit & Governance Committee receive quarterly reports on Fraud and Investigation work undertaken.

Are there any other options available for consideration?

Audit & Governance Committee could choose not to receive Fraud and Investigation reports but this would weaken its involvement in the Council's Internal Control Framework and overall governance.

Implementation Date for the Decision

Immediately following the Audit & Governance Committee meeting.

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Background Papers:

The following papers are available for inspection by contacting the above officer(s).

Protecting the Public Purse (Fighting fraud against Local Government)

Managing the Risk of Fraud (Books 1 &2)

PWC Progress Report

Audit Committee Terms of Reference

1. Introduction/Background

1.1 The Audit & Governance Committee have a responsibility:

To monitor Council policies on 'whistle-blowing' and the anti-fraud and anti-corruption strategy, anti money laundering, bribery and the Council's complaints process and review as necessary.

1.2 As part of the External Auditor's (PWC) work they are required to obtain from those charged with governance, their perspective of fraud within the Council. As part of this they ask a number of key questions including:-

"What incentives and pressures do you perceive to be on management and how are the related fraud risks managed?"

"How do you exercise oversight over activities regarding the risks of fraud and the programme and controls established to mitigate risks?"

1.3 The Audit & Governance Committee has previously received and approved those policies identified at 1.1 and also receive a quarterly report on the proactive and reactive work undertaken by Internal Audit in regard to Fraud and the actions undertaken to mitigate the risk of fraud. It is important that Members understand how the Council responds to the issue on a day to day basis and the actions currently undertaken by Sefton to respond to the risk fraud presents.

1.4 This report is provided in order to ensure that those members responsible for the governance of the organisation are aware of the problems Local Government faces in regards to fraud; to outline the actions currently undertaken by Sefton to respond to the risk that fraud presents; to identify any potential gaps / weaknesses in the Council's strategy / plan and to consider actions to address these areas.

1.5 Each year the Audit Commission undertakes a survey of all local authorities. This survey looks at the detection of fraud and the levels and types of fraud within Local Authorities along with the procedures that are in place to detect and prevent fraud. The results of the survey are published annually in the document "Protecting the Public Purse" which highlights some of the key issues around fraud in Local Government; the current fraud risks that Council's face; further the report includes good practice and recommendations for Council's to consider in order to help reduce fraud. This report outlines some of the main issues included in the 2011 document, a full copy of the document can be found on the Audit Commission website at

<http://www.audit-commission.gov.uk/fraud/protecting-the-public-purse/Pages/ppp2011.aspx>

2. Protecting the Public Purse 2011

Summary Information

2.1 The survey of fraud against Councils and related bodies shows that:-

- local public bodies detected approximately 121,000 frauds, valued at £185 million, this compares with 119,000 detected frauds valued at £135 million in 2009/10;
- there were about 59,000 housing benefit and council tax benefit fraud cases, resulting in losses of £110 million to the public purse. These frauds represent more than half the total value of frauds detected by local bodies in 2010/11, in 2009/10 there were 63,000 cases with losses of £99 million;
- there were 56,000 detected council tax discount frauds costing more than £22 million, compared with 48,000 frauds costing £15 million in 2009/10;
- other frauds totalled around 5,600 and were worth £53 million, this compares with 7,000 other frauds worth £21 million in 2009/10. The six largest fraud types within this category include procurement, payroll, pensions and expenses, abuse of position, false insurance claims, social care and disabled parking concessions (blue badge);
- the number of frauds perpetrated by councils' own staff is low with only 1,581 cases (1.3% of total cases) but the value was £19.5 million, which represents 10.5% of the total value of detected frauds.

2.2 The Chief Internal Auditor completed the Survey on behalf of Sefton Council and these figures will be included in the Audit Commissions publication for 2011. Whilst Sefton's figures have been provided in previous years there are no records retained in regard to these figures, therefore, it is not possible to provide Members with a comparison of the figures relating specifically to Sefton. In future years this report will include a comparison of Sefton's figures and indication of increases / decreases. Further Sefton has not previously maintained figures in relation to the type and value of fraud except in the areas that Internal Audit examine. This will be addressed in the coming financial year with a co-ordinated approach to the recording of cases / incidents. This is to be discussed and agreed with the Heads of Corporate Personnel and Corporate Legal as part of a fraud response plan.

Fraud Risks Highlighted in 2009 and 2010 Reports

- 2.3 In the previous reports the Audit Commission highlighted the growing risk of fraud associated with housing tenancies; false claims for council tax discounts; abuse of personal budgets; procurement fraud; and housing benefits fraud.
- 2.4 The 2011 survey provided for Councils to submit council's progress in these areas since those publications.
- 2.5 Sefton now has a more proactive approach to tackling fraud, both in the detection and the prevention of the risk of fraud. In the current financial year specifically work has been undertaken in the areas of Housing Benefit and Council tax discounts, specifically Single Person Discount fraud. Specific detail in relation to Sefton's work in this area is included in this report below.
- 2.6 Further work will be undertaken in all areas identified in the coming financial year 2012/13. This will partly be resourced through a shared service arrangement; the Chief Internal Auditor has agreed an arrangement with Warrington Council that will see a number of days from Sefton's Audit Plan for the provision computer audit to Warrington; in return Warrington Audit will provide the same number of days to Sefton for fraud related work, including those areas for improvement identified

below. Warrington Internal Audit have officers who have skills and expertise in that area

Emerging Fraud Risk Areas 2011

- 2.7 The Audit Commissions report (Protecting the Public Purse) goes on to identify nationally emerging fraud risk areas for 2011 across local public bodies; including Councils, these have been identified as including:
- the expansion of personal budgets in social services;
 - the impact of the current economic climate putting more pressure on individual's finances and tempting people to commit fraud;
 - reduced staff numbers, which may weaken councils' internal controls; and
 - fraudsters abusing the expenditure information that councils are now asked to publish, in order to defraud local public bodies.
- 2.8 Criminals, including some based outside the UK, have targeted councils and other public organisations in an attempt to redirect payments intended for legitimate creditors such as large construction companies. This has previously been reported to this Committee and Sefton did not suffer any financial loss from attempts of this nature as appropriate controls were in place to mitigate the risk.

Good Practice Advice

- 2.9 The Audit Commission report also provides some examples of good practice that local public bodies could follow to preserve an effective counter-fraud response. Organisations can make large savings as reducing fraud can make an important difference to local finances. The report identifies good counter-fraud work submitted by local public bodies surveyed that Council's may wish to consider in tackling fraud in the public sector, however, it is for public bodies to act on it. The recommendations made that relate to Councils are included at Appendix 1 of this report. The Audit Commission report also includes a checklist for those responsible for Governance, this is included at Appendix 2, and this will be completed as part of the review of the Council's arrangements in regard to fraud.
- 2.10 There is support and advice from government in respect of Council's approach to fraud. In October 2010, the government established a Taskforce on Fraud, Error and Debt to develop a new approach to tackling public sector fraud. The taskforce highlighted four priorities for tackling public sector fraud:-
- **Collaboration:** public organisations should remove any barriers to joint working. All parts of the public sector must work together to tackle fraud;
 - **Risk assessment and measuring losses:** public organisations must assess the risk of fraud before they launch projects and programmes and must record and report losses;
 - **Prevention:** public organisations must invest in and properly resource fraud prevention;
 - **A zero-tolerance culture towards fraud:** there is no acceptable level of fraud against the public purse.

Taken together these priorities will help to improve fraud prevention, deterrence and detection.

2.11 In April 2011 DCLG published a ten point plan for tackling fraud against local government. The Audit Commission report recommends that Councils should compare their arrangements for tackling fraud against this plan, shown below:-

1. Measure exposure to risk
2. More aggressively pursue a preventative strategy
3. Make better use of data analytics and credit reference agency checks to prevent fraud
4. Adopt tried and tested methods for tackling fraud in risk areas – such as blue badge scheme misuse
5. Follow best practice to drive down Housing Tenancy and Single Person Discount fraud
6. Pay particular attention to high risk areas such as procurement and grant awards
7. Work in partnership with service providers to tackle organised fraud against local services
8. Maintain specialist fraud investigative teams
9. Vet staff to a high standard to stop organised criminals infiltrating key departments
10. Implement national counter fraud standards developed by CIPFA.

3. Sefton's Action Plan / Way Forward

3.1 This Section identifies Sefton Council's current work / actions; future work / actions and areas for improvement.

Current Work / Actions

3.2 The Council already has a number of Sections that focuses on preventing, detecting and deterring fraud, including:-

- Housing Benefit fraud Team
- Trading Standards
- Internal Audit
- HR / Personnel Officers.

3.3 Further there are a number of documents / policies in place that contribute to the Councils preventative measures including:-

- Anti Fraud, Bribery & Corruption Policy
- Confidential Reporting (Whistle-blowing) Policy
- Code of Conduct
- Constitution, including Financial Procedure Rules and Contract Procedure Rules

3.4 The Audit Plan includes a substantial number of days for proactive anti fraud work in order to put measures in place to prevent, detect and deter fraud as well as days included for reactive work in relation to frauds / other investigations that have

happened. When the Audit Plan is compiled each area is risk scored and this includes scoring in respect of the potential / likelihood for fraud in that area in order for the Chief Internal Auditor to ensure that those key high risk areas where fraud is more likely to occur are audited on a regular basis, each brief that is produced for each individual audit also takes account of any guidance / information in respect of frauds likely to occur in those areas.

- 3.5 The Benefit Fraud Investigation Team continues to investigate allegations of Housing and Council Tax benefit fraud, the results of which are reported to the Audit & Governance Committee each quarter.
- 3.6 Work has also been undertaken by Arvato in partnership with Experian, at the Councils request in respect of Single Person Discount (SPD). A press release was published informing residents that checks were being undertaken to identify fraud and in addition a narrative was included on the Council Tax bills stating that information may be shared for the prevention and detection of fraud. Experian undertook a data matching exercise to establish the likelihood of there being other residents at the addresses of the persons claiming SPD, a total of 25,000 non benefit cases were sent to Experian.
- 3.7 In total approximately 3300 – 3400 cases were initially identified as potentially having more than one qualifying resident at the address, query letters were sent to these residents, a second data match has been performed resulting in a further 800 query letters being sent. The findings as at December 2011 are identified below:-
- 698 discounts have been cancelled (approx 2.8% of those identified);
 - £255K of additional debt has been raised.

It is envisaged that the review will result in approximately 800 – 850 discounts being cancelled realising a total of £300k additional debt (and therefore potential income). This theoretically means that the Council has uncovered approximately £300k of potential fraud as these claimants were claiming Single Person Discount when they were not entitled to it. Further work is to be undertaken in this area and will be reported to Audit & Governance at a future meeting.

- 3.8 The Council partakes in the Audit Commissions National Fraud Initiative and submits data for data matching on a bi-annual basis. Data matches are then investigated by each appropriate Section, an Auditor is assigned to each set of data matches and investigations are undertaken as necessary, these are reported to the Audit & Governance Committee as part of the quarterly fraud report. The Council also submits data in relation to Electoral Register information and SPD, this has been submitted for 2012 and matches will be released to Councils in May 2012, further work will then be undertaken on SPD potential fraud.
- 3.9 There is further work that the Council undertakes in order to prevent, detect and deter fraud including:-
- Duplicate payment identification software;
 - Verification process for all social landlords;
 - Improvements in automated payment processes.

Future Work / Actions

- 3.10 The Council currently has strong anti-fraud procedures in place however there are a number of further actions that can be taken in order to strengthen controls within the Council to contribute towards the prevention, detection and deterrence of fraud. It is anticipated that by strengthening controls and addressing risks in respect of fraud the Council will become more robust in its fight against fraud.
- 3.11 In the coming 12 months (2012/13) it is intended that a number of initiatives will be introduced to respond to the recommendations within the Audit Commission's report (Protecting the Public Purse) and the DCLG's ten point plan including:-
- **Producing a fraud response plan for the Council** – this will focus on the Council's response to fraud and responsibilities of individual officers;
 - **Internal Audit will undertake a fraud risk assessment** – this will be undertaken with Managers across the Council (via the Corporate Risk Management Group);
 - **Establish a more joined up approach to the recording and reporting of fraud across the Council** – currently a number of different sections respond to fraud both internal and external; these need to be recorded and reported centrally in order to ensure resources are focused where the Council's vulnerabilities lie;
 - **Improve awareness of processes in respect of potential fraudulent documents** – this will ensure that those people who receive identity documents / proof of earnings etc. are aware of the issues around fraudulent documents and a process is in place to record and report;
 - **Internal Audit will undertake an assessment against the CIPFA red book "Managing the Risk of Fraud"** - this document outlines best practice in regards to managing the risk of fraud; IA will undertake a gap analysis to identify areas for improvement for Sefton.
 - **Continue to be involved in NFI exercise** – the Council will continue to be involved with the NFI data matching exercises; Internal Audit will continue to support departments in investigations as and when necessary;
 - **Review of personal budgets in social care**
 - **Review of Changes in staffing structures** – Internal Audit will undertake a review to identify with Managers areas that are open to risk of fraud due to lack of staffing or inexperienced staff;
 - **Review of and Response to the Checklist included in the Protecting the Public Purse report** – Internal Audit will review the checklist and respond to the issues raised, this will be reported to Members on completion, following the review of the Councils assessment against the CIPFA guidance.

Areas for Improvement

- 3.12 There are a number of areas for improvement that will be considered as part of the approach to the prevention, detection and deterrence of risk of fraud. These include:-
- Schools and the risk of fraud arising within the operation of schools finances, ICT etc.;

- Raise staff awareness of the potential risk of fraud by issuing fraud bulletins and establishing training etc.;
- Advertise the undertaking of NFI data matching exercises and its outcomes;
- Strengthen the inter agency approach to fraud and its prevention;
- Strengthen the co-ordinated approach to fraud by LA's across Merseyside;
- Review and improve protocols for data sharing inter departmentally.

4. Conclusion

- 4.1 The Audit Commissions report "Protecting the Public Purse provides useful information on the prevention, detection and deterrence of fraud within local government. It provides indications as to the extent of fraud within a range of public bodies, good practice guidance and markers to future issues. Sefton Council will continue to contribute to the compilation of this report via completing the fraud survey.
- 4.2 The Audit Commission's report includes a number of recommendations for Councils, Sefton Council already meets many of these and we will be actively pursuing others. All fraud work and progress against the issues raised in this report will be reported via the quarterly fraud reports to Audit & Governance.

5. Recommendation

- 5.1 Members are asked to consider and note the report and endorse Sefton's action plan / way forward.

Audit Commission “Protecting the Public Purse”
Recommendations for Councils

Councils should:-

1. Ensure they keep the capability to investigate fraud that is not referred to Housing Benefits;
2. Improve their use of data, information and intelligence to focus their counter-fraud work;
3. Review their counter-fraud arrangements in the context of the NFA’s strategy for local government “Fighting Fraud Locally”;
4. Work with other social housing providers to improve the use of civil and criminal action to deter tenancy fraudsters; (*)
5. Use the Audit Commission’s council tax single person discount (SPD) fraud predictor toolkit to assess the potential level of such fraud locally;
6. Review their performance against the NFA’s good practice guide on tackling housing tenancy fraud (*) and council tax fraud;
7. Ensure the National Fraud Initiative (NFI) data matches are followed up effectively, including those targeting council tax discount abuse;
8. Review personal budget arrangements to ensure safeguarding and whistleblowing arrangements are proportionate to the fraud risk;
9. Follow good practice and match the success of others; and
10. Use the Audit Commissions checklist for those charged with governance (See Appendix 2) to review their counter-fraud arrangements.

() Not Applicable to Sefton*

Audit Commission “Protecting the Public Purse”
Checklist for those charged with Governance

General

1. Do we have a zero tolerance policy towards fraud?
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with *Fighting Fraud Locally*?
3. Do we have dedicated counter-fraud staff?
4. Do counter-fraud staff review all the work of our organisation?
5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?
6. Have we assessed our management of counter-fraud work against good practice?
7. Do we raise awareness of fraud risks?
 - a. with new staff (including agency staff)?
 - b. with existing staff?
 - c. with elected members?
 - d. with our contractors?
8. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?
9. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?
10. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?
11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on the matches investigated?
12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?
13. Do we have effective whistleblowing arrangements?
14. Do we have effective fidelity insurance arrangements?

Fighting Fraud with reduced resources

15. Have we reassessed our fraud risks since the change in the financial climate?

16. Have we amended our counter-fraud action plan as a result?
17. Have we reallocated staff as a result?

Current Risks & Issues

Housing Tenancy (Not Applicable to Sefton)

18. Do we take proper action to ensure we only allocate social housing to those who are eligible?
19. Do we ensure that social housing is occupied by those to whom it is allocated?

Procurement

20. Are we satisfied our procurement controls are working as intended?
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?

Recruitment

22. Are we satisfied our recruitment procedures achieve the following:-
 - a. Do they prevent us employing people working under false identities?
 - b. Do they confirm employment references effectively?
 - c. Do they ensure applicants are eligible to work in the UK?
 - d. Do they require agencies supplying us with staff to undertake the checks that we require?

Personal Budgets

23. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?
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?

Council Tax

25. Are we effectively controlling the discounts and allowances we give to council taxpayers?

Housing and Council Tax Benefits

26. When we tackle housing and council tax benefit fraud do we make full use of the following:-
 - a. National Fraud Initiative?
 - b. Department for Work and Pensions Housing Benefit matching service?
 - c. Internal Data Matching?
 - d. Private sector data matching?

