
Report to: Audit & Governance Committee **Date of Meeting:** 10 September 2014

Subject: Internal Audit Fraud Report

Report of: Head of Corporate Finance & ICT **Wards Affected:** None Directly

Is this a Key Decision? No

Is it included in the Forward Plan? No

Exempt/Confidential

No

Purpose/Summary

To provide Audit and Governance Committee with a summary of proactive anti fraud and corruption and investigation work undertaken by Internal Audit during 2014/15 and to provide brief details of completed investigations.

Recommendation(s)

Members are requested to:-

- (i) Consider and Note the report.

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, work undertaken to investigate allegations received and significant fraud risks identified as part of Internal Audit's work as part of their review of the internal control environment and overall Governance arrangements.

What will it cost and how will it be financed?

The Internal Audit service is budgeted for as part of the Finance Service.

(A) Revenue Costs

The audits referred to in the report have led to the recovery of £750 of fraudulently obtained grant monies.

(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 None
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 is the report owner (FD3135) and confirms that there are no financial implications as the purpose of the report is to update members on new and ongoing work carried out by the Audit service within their budgeted running costs. The Head of Corporate Legal Services (LD2427/14) has been consulted and any comments have been incorporated into the report.

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.

Contact Officer: Janice Bamber, Chief Internal Auditor
Tel: 0151 934 4051
Email: janice.bamber@sefton.gov.uk

Background Papers :

There are no background papers available for inspection.

1. Introduction/Background

- 1.1 The statement by CIPFA's Audit Panel on the role of the Audit Committee in local government states that "Audit Committees are a key component of corporate governance and are a key source of assurance about the organisations arrangements for managing risk, maintaining an effective control environment and reporting on financial and non financial performance". The Council's terms of reference for the Audit Committee includes the requirement to monitor Council policies on 'whistle-blowing', the anti-fraud, bribery and corruption strategy and the Council's complaints process. In order for the Audit & Governance Committee to fulfil its requirement in regard to governance arrangements in respect of fraud the Chief Internal Auditor will produce reports on fraud to be submitted to each meeting of the Audit & Governance Committee for their information and an annual report at each year end summarising all Fraud / Investigation work undertaken in each financial year.
- 1.2 Details of any proactive anti fraud work and a summary of cases completed since the March Audit & Governance Committee are presented in this report which is not considered exempt / confidential. The report focuses on the work undertaken by Internal Audit but will include details of investigations undertaken by other Sections / Departments in order to ensure that those charged with governance within the Council are made aware of frauds perpetrated or suspected. A second report providing a brief summary of new referrals and ongoing investigations is presented later in the agenda as an Exempt / Confidential item.
- 1.3 The report will also inform Members of the continual development of anti fraud policies and procedures within the Council, areas of compliance with these policies and areas for development over the coming year.

2. Key Issues

- 2.1 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:-

"Are you (Audit & Governance Committee) aware of any fraud that has either been perpetrated or is suspected?"

"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?"

"Were any matters relating to fraud reported to members of the Audit & Governance Committee, where we (PWC) were not present during the year? What action did Management and the Committee take?"
- 2.2 The Chief Internal Auditor has produced this report to the Audit & Governance Committee in order to ensure they are made aware of any fraud issues arising within the Council and the action taken by Management. Further, the risk register identifies the Managers perceived pressures and the controls put in place to

minimise the risks and the risk of fraud in those areas. The Audit Plan for 2014/15 includes a programme of proactive anti fraud, bribery and corruption work, which will include a review of the areas where there is significant risk of fraud, the work undertaken and actions required will be reported to Audit & Governance during the 2014/15 financial year.

3. DCLG Counter Fraud Fund

- 3.1 In July 2014, Local Government Secretary, Eric Pickles, announced a multi-million pound fund to help Councils fight fraud. Councils are invited to bid for a share of the £16.6m fund but to be eligible they must demonstrate how their proposals will recoup money owed or tighten controls to prevent fraud occurring. The fund will give Councils 2 years of support to step-up how they tackle unnecessary losses from non-benefit related fraud, such as Council Tax fraud, blue badge fraud or theft of grants.
- 3.2 Sefton is represented on a new Officer Group – the Mersey Region Fraud Group (MRFG) that has been established in order to compile a joint bid for funding. Should the bid be successful, it will increase each authority's capability and capacity to tackle fraud as resources will be combined, intelligence shared and duplication minimised. It will raise the profile of counter fraud which will act as a deterrent to fraudsters. It will also establish an additional reporting mechanism in respect of receiving fraud referrals which could lead to additional financial savings. The draft bid will be submitted to the Chief Executive for agreement to continue and, if agreed, will be signed off by the Head of Finance & ICT. Further updates regarding the progress of the bid will be provided to future meetings of the Audit & Governance Committee.

4. arvato Benefit Fraud Investigation

- 4.1 The Government are in the process of establishing a Single Fraud Investigation Service (SFIS) to tackle all welfare benefit fraud. SFIS will be based within DWP and will bring together welfare benefit fraud investigations currently undertaken by DWP, local authorities and HMRC. Sefton will no longer be responsible for investigating Housing Benefit fraud and arvato staff will transfer into DWP to be part of SFIS in October 2015.
- 4.2 Council Tax Reduction Scheme (CTRS) and Council Tax Benefit fraud investigations will remain the responsibility of the Council. In order to deliver on this and further develop the overall approach to fraud, arvato have proposed a pilot scheme for the investigation of CTRS and CTax Benefit fraud, e.g. Single Person Discount, for the period October 2014 to September 2015. Outcomes from these investigations will be reported as part of the quarterly Audit and Governance Committee updates.

5. Bank Mandate Fraud Attempt

- 5.1 The National Anti-Fraud Network (NAFN) has recently highlighted an increased number of bank mandate fraud attempts being directed against local authorities. One Council was defrauded of £300k in one such scam. Bank mandate fraud can be described as 'change of bank account scams', 'payment diversion fraud' or 'supplier account takeover fraud'. It occurs when a fraudulent request to change a

direct debit, standing order or bank transfer mandate is received by an organisation from someone purporting to be the supplier to benefit from payments to a different account. Details of suppliers can be obtained from different sources including corrupt staff, published contract information and on-line logs of supplier contracts.

- 5.2 Sefton has recently avoided being the victim of a mandate fraud attempt. A letter purporting to be from one of the Council's suppliers was received by arvato requesting a change to the bank account details held by arvato and used to make payments to the supplier on behalf of the Council. Previous work has been undertaken to establish robust controls in order to detect and prevent such attempts being successful. These established protocols were followed and it was confirmed that the letter received was not genuine thus preventing the Council suffering any financial loss. The police were informed and Internal Audit also passed the details to the National Anti-Fraud Network.

6. Completion of 2013/14 Investigations

Internet & Mobile Phone Usage (YP & F)

- 6.1 An investigation was undertaken after it was alleged that an employee had been accessing and browsing the Council's internet facility for personal use during working hours and while being paid overtime. There was also a further allegation in respect of breaches of the Council's Dignity at Work Policy. It was confirmed that the employee had clearly breached the Council's Internet Acceptable Use Policy. The employee was dismissed following a disciplinary hearing in May 2014.

Stepclever Legacy Funding

- 6.2 An investigation confirmed that bogus invoices had been submitted fraudulently by a local small business to substantiate expenditure of £2,462.98 of grant money it had received. The matter was reported to the police and the Council is in the process of recovering the money via its normal debt recovery procedures.

7. Update Regarding Previously Reported Case

- 7.1 A case involving £750 of grant money being obtained fraudulently by a small business was reported to the Audit & Governance Committee in March. It has now been confirmed that, as a result of the investigation, this money has now been recovered in full.

8. Conclusion

- 8.1 The Council has a zero tolerance approach to dealing with fraud and corruption and this is endorsed by Members and Management. Internal Audit will continue to raise awareness of the potential for fraud and promote the anti-fraud culture across the authority and will continue to report on our work to this Committee in 2014/15.