

AUDIT COMMISSION NATIONAL REPORT: PROTECTING THE PUBLIC PURSE

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Summary: To present the Audit Commission's national report "Protecting the Public Purse", which relates to fighting fraud in Local Government.

Recommendation: That Members consider the findings of the Audit Commission report and note the Council's compliance, as detailed in the best practice checklist, together with the action plan to address the areas of improvement.

1.0 INTRODUCTION

- 1.1 This Audit Commission report focuses on Local Government and considers the key fraud risks and pressures facing councils and identifies good practice. For the purpose of this Report, fraud is defined as "any intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss."
- 1.2 Since the 1990's, and the first series of Audit Commission reports on Protecting the Public Purse, many positive changes have taken place. Councils have improved their governance arrangements, most have established Audit Committees and external auditors review the adequacy of governance and counter-fraud arrangements at each council, as part of their annual Use of Resources assessment. In addition, data matching capabilities, such as the Audit Commission's National Fraud Initiative (NFI), have helped councils to prioritise their counter-fraud activities and to highlight high risk areas. However, defences against fraud need to continue to be developed to maintain their effectiveness in the face of new threats and changing risks.
- 1.3 The Report provides a checklist for council's to obtain assurance that their organisation has governance and counter-fraud arrangements that are fit for purpose and working as intended.

2.0 KEY FINDINGS

- 2.1 The Executive Summary from the Report extracts the key messages and recommendations:-

Fraud is bad news for the economy, councils and taxpayers because:

- the honest majority pay for it; and
- it can adversely affect the provision of public services.

Councils have done much over the last few years to combat fraud and many are managing the risks well by:

- developing a zero-tolerance approach towards fraud;
- improving governance arrangements, including establishing Audit Committees;
- adopting good practice in managing the risk of fraud;
- creating a strong counter-fraud culture and implementing counter-fraud policies and procedures; and
- training and supporting specialist staff to prevent and detect fraud.

The Audit Commission has identified some significant areas where the risk of fraud has not been adequately addressed at a local level:

- housing tenancy fraud, estimated to have reduced the social housing available nationally for allocation by nearly 50,000 properties;
- false claims for single person discount on Council Tax, estimated at £90 million each year; and
- recruitment fraud, which can have severe consequences and which fraudsters often exploit to commit other types of fraud.

Other fraud risks still need to be tackled as:

- the amount lost through Housing and Council Tax Benefit fraud, after a period of decline, has recently increased;
- procurement frauds have involved large sums; and
- there is evidence of some misuse of social care direct payments. [This is where the individual is given a payment and can choose how this is to be spent e.g. with private providers of social care. Not applicable to this Council].

Fraud is likely to increase because of the recession as:

- economic distress can increase the incentive to commit fraud; and
- controls to prevent and detect fraud can come under pressure as councils reduce their costs.

2.2 This Council's compliance is detailed in the best practice Counter-Fraud Checklist, attached at Appendix A. Actions for improvement are shown in bold print and incorporated in the action plan at Appendix B. These actions will be recorded on the Covalent performance system and implementation will be monitored.

3.0 CONCLUSION

- 3.1 The Audit Commission report concludes that, although generally counter-fraud arrangements have improved, there is more that councils could do to minimise fraud opportunities by :-
- assessing the effectiveness of their current arrangements and taking action where appropriate;
 - focusing on high risk areas;
 - setting clear targets and monitoring their return from their investment in counter-fraud resources; and
 - working with other organisations to reduce fraud and the harm it causes.
- 3.2 This is an opportunity for the Audit Committee to consider how this Council is responding to the risk of fraud and to note any improvements to be made.

4. RECOMMENDATION

- 4.1 It is recommended that Members consider the findings of the Audit Commission report and note the Council's compliance, as detailed in the best practice checklist, together with the action plan to address the areas of improvement.

List of Appendices:

Appendix A - Counter-Fraud Checklist
Appendix B – Counter Fraud Action Plan

List of Background Documents: None

Officers Consulted: Head of Finance and Management Information Systems

Circulated for information to: Corporate Team

Counter Fraud Checklist

| General | Yes | No | Comments / Action needed |
|--|-----|----|--|
| 1. Have we committed ourselves to zero tolerance against fraud? | ✓ | | Revised Anti-Fraud Strategy approved by the Executive 14/12/09 and the zero tolerance approach to fraud and corruption was formally endorsed. |
| 2. Do we have appropriate strategies, policies and plans? | ✓ | | As 1 above. |
| 3. Do we have dedicated counter-fraud resources? | ✓ | | Dedicated Fraud Team, with specialist training in Benefit fraud investigation, which is nationally recognised as the major area of fraud in local government. In 2010, the Council will still benefit from a centralised dedicated Fraud Team under the Revenues & Benefits Shared Service agreement. This will operate to the same Standards and will have set targets. Internal Audit officers are also trained in fraud investigation and would deal with non-Benefit fraud cases. Under the proposed Shared Service for Internal Audit, one Audit Manager would have counter-fraud in his portfolio of responsibilities, with specialist support from a dedicated Fraud Officer from the NHS consortium. |
| 4. Do the resources cover all of the activities of our organisation? | ✓ | | Resources include those in Internal Audit, as well as the Council's Monitoring Officer and Section 151 Officer. |

| General | Yes | No | Comments / Action needed |
|---|-----|----|--|
| 5. Do we receive regular reports on fraud risks, plans and outcomes? | ✓ | | The annual risk assessment, used to prepare the annual audit plan, includes an evaluation of the risk of fraud. All systems audits include a review of the controls to prevent / detect fraud, where there is a risk of fraud. Quarterly reports to the Audit Committee on the main audit findings. Also a quarterly Fraud Monitoring Report, on the activities of the dedicated Fraud Team. Key service plan objective: to set out the areas susceptible to fraud and the action taken in these areas, in one document – to produce an end of year report and a plan for the coming year. |
| 6. Have we assessed our management of counter fraud resources against good practice? | ✓ | | Internal Audit use the Audit Commission Fraud Manual. The Fraud Team comply with the Department of Work and Pensions (DWP) standards for fraud prevention and investigation. CIPFA Red Book compliance checklist to be completed. |
| 7. Do we raise awareness of fraud risks with: „ new staff (including agency staff)? „ existing staff? „ members? | ✓ | | Fraud Team give specialist presentations / training on Benefit fraud, particularly to Customer Services staff. Publicise Anti-Fraud & Corruption Strategy to staff and Members. Presentations provided to staff & Members. Refresher presentations to be given, based on the revised Anti-Fraud and Corruption Strategy approved December 2009. |

| General | Yes | No | Comments / Action needed |
|---|-----|----|--|
| 8. Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues? | ✓ | | <p>Fraud Team leader attends the Local Authority Investigators Officers Group / uses their web forum. Also subscribe to the National Anti-Fraud Network and take part in the National Fraud Initiative.</p> <p>Internal Audit subscribes to the CIPFA Technical Information Service, their Audit Viewpoint newsletters and have a subscription for all CIPFA audit publications. Updates are also received via Audit Commission publications.</p> <p>Internal Auditors have also attended an Anti-Fraud update course and a Fraud Forum event in 2009.</p> |
| 9. Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud? | ✓ | | <p>The Fraud Team work closely with the DWP on joint investigations and intelligence.</p> <p>The Cumbria Audit Group raise general principles of any fraud cases arising in their area, though do not discuss the specific details of cases.</p> |
| 10. Do we identify areas where internal controls may not be performing as intended? | ✓ | | Yes – this is a core function of Internal Audit Unit. Specific tests to review controls to prevent / detect fraud - see 5 above. |
| 11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on outcomes? | ✓ | | <p>All data required by the National Fraud Initiative was supplied in 2009. The Fraud Team co-ordinate the investigation of the results and address the high priority areas first. Quarterly progress reports made to the Audit Committee.</p> |

| General | Yes | No | Comments / Action needed |
|---|-----|-----------|--|
| 12. Have we reassessed our fraud risks because of the recession? | ✓ | | Case studies in the Protecting the Public Purse report have been reviewed. The areas likely to be affected are included in the main financial systems and are covered on an annual basis. |
| 13. Have we amended our counter-fraud action plan as a result? | | N/A | Dedicated Benefits Fraud Team already in place and no need to amend the audit plan -see 12 above. [However, also see 5 re the need to produce a specific counter-fraud plan] |
| 14. Have we reallocated staffing as a result? | | N/A | See 13 above. |
| 15. Do we take effective action to ensure that social housing is allocated only to those in need? | | N/A | Social Housing is allocated by the Housing Associations. [No Council housing stock, only emergency provision for the homeless, on a temporary basis. Housing Inspection and follow up in 2009] |
| 16. Do we take effective action to ensure that social housing is occupied by those to whom it is allocated? | | N/A | See 15 above. |
| 17. Are we satisfied that payment controls are working as intended? | ✓ | | No concerns arising from National Fraud Initiative or from internal audit work to date. |
| 18. Have we reviewed our contract letting procedures against the good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels? | | Not known | Contract Standing Orders were reviewed in 2008/09 in line with government guidance on procurement best practice. Need to include a check in the next audit of procurement arrangements, as to whether good practice guidance on contract letting procedures, issued by the Office of Fair Trading, has been adopted. |

| General | Yes | No | Comments / Action needed |
|--|-----|-----|---|
| 19. Are we satisfied that our recruitment procedures are: „ preventing employment of people working under false identities? „ validating employment references effectively? „ ensuring applicants are eligible to work in the UK? | ✓ | | Annual check of procedures as part of the Payroll audit. Procedures in place, although checks were not always evidenced on the HR files. Manager has confirmed that this has been addressed. Will continued to be checked as part of the audit. |
| 20. Where we are moving to direct payments (for example, social care) have we introduced suitable and proportionate control arrangements in line with recommended practice? | | N/A | The move is more towards the Council making payments to the supplier of the service e.g. direct payments to landlords and to contractors carrying out improvement grant-funded work. |
| 21. Are we effectively controlling the discounts and allowances we give to council taxpayers? | ✓ | | Joint exercise with other Cumbrian Districts. Single Person Discount for Council Tax data also included in the National Fraud Initiative. Routine test of all discounts / allowances included in the annual audit of Council Tax. |
| 22. Are we satisfied that we are doing all that we can to tackle housing and council tax benefit fraud? | ✓ | | Dedicated Fraud Team and Benefit Fraud Awareness training given to all Customer Services staff. Periodic awareness sessions offered to all staff and Members. Public posters, items in Copeland Matters, Fraud hotline and contact details / fraud referral form on the Council's website. Recent Audit Commission inspection initial feedback concluded that Benefit Fraud arrangements were good. |

| General | Yes | No | Comments / Action needed |
|---|-----|----|---|
| 23. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering? | ✓ | | Anti money laundering policy in place including reporting channels. Included in the Treasury Management Strategy and reference made to it in the Anti-Fraud and Corruption Strategy. Written guidance provided to relevant staff. |

This checklist was included in the Audit Commission national report "Protecting the public purse: Local government fighting fraud" published in September 2009.

COUNTER FRAUD ACTION PLAN FEBRUARY 2010

| | Action Code & Title | Priority | Managed By | Due Date |
|---|---|----------|--|----------|
| 1 | Key Service plan objective : to set out the areas susceptible to fraud and the action taken in these areas, in one document – to produce an end of year report and a plan for the coming year. | 2 | Audit and Fraud Prevention Manager | 10/04/10 |
| 2 | CIPFA Red Book compliance checklist to be completed. | 2 | Audit and Fraud Prevention Manager | 30/4/10 |
| 3 | Refresher presentations to be given, based on the revised Anti-Fraud and Corruption Strategy approved December 2009. | 1 | Audit and Fraud Prevention Manager | 31/3/10 |
| 4 | Need to include a check in the next audit of procurement arrangements, as to whether good practice guidance on contract letting procedures, issued by the Office of Fair Trading, has been adopted. | 2 | Audit and Fraud Prevention Manager [Issue has been raised with the Procurement Officer 25/1/10] | 30/6/10 |