



Protecting The Public Purse 2011

SUMMARY

- 1.1 This report provides members with a synopsis of the Audit Commission's latest national report on fraud in local government. It updates the checklist for those responsible for governance to reflect the results of its annual fraud survey.

RECOMMENDATION

- 2.1 To note the report.

REASONS FOR RECOMMENDATION

- 3.1 The Audit and Accounts Committee is responsible for providing assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.

SUPPORTING INFORMATION

- 4.1 On 10 November 2011, the Audit Commission published its latest national report on fraud, "Protecting the Public Purse 2011". The national report describes the latest developments in fraud detection and prevention since 2010 and publishes the findings of the Audit Commission's recent fraud survey. The report also identifies more fraud risks for councils to focus on.
- 4.2 The Audit Commission states that "Fraud is a significant problem. It affects everyone in the UK. In 2011 the National Fraud Authority (NFA) estimated that:
- Each year, public, private and third sector organisations, as well as individuals lose over £38 billion to fraud;
 - Fraud costs every adult in the country £765 a year: and
 - Fraud against public sector organisations costs £21.2 billion, with fraud against councils costing more than £2 billion a year.
- 4.3 Last year, local authorities across the country detected around £110 million in benefit fraud, over £22 million in council tax fraud through wrongly claimed discounts and exemptions, and £53 million in other types of fraud including false insurance claims and abuse of the disabled parking "blue badge" scheme. In addition nearly

1,800 homes have been recovered by local authorities following the investigation of tenancy frauds.

4.4 The key fraud risk areas identified by the Audit Commission's report are:

- *Housing Tenancy Fraud*

Housing tenancy fraud is the use of social housing by someone not entitled to occupy that home. It includes:

- the unauthorised subletting of a property for profit to people not allowed to live there under the conditions of the tenancy;
- using false information in a housing application to gain a tenancy; and
- wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant.

- *Council Tax Fraud*

This category of fraud has been expanded beyond the original focus on single person discounts, to include the other discounts and allowances available, particularly student exemptions. The Commission estimates that between 4 and 6% of single person discount cases each year are fraudulent at a cost to taxpayers nationally of at least £90 million.

- *Personal Budgets for Adult Social Care*

Adult social care costs around £16 billion a year in England, with an increase in the number of personal budgets of 55% in 2010/11. This growth will continue as the Department for health is urging councils to provide personal budgets for everyone eligible for continuing social care by April 2013. Identified fraud risks include

- a person falsely claiming that they need care – the risk of this type of fraud is not new, but the access to funds through direct payments is likely to be more attractive to potential fraudsters than traditional care packages;
- fraud by someone managing the personal budget of the person in need: and
- fraud by an organisation or someone providing care to the person in need.

- *Procurement Fraud*

The report identifies key areas of external fraudulent activity as:

- cartels involving collusion among some bidders to agree that they will not bid competitively for a particular contract;
- applicants tendering, but not in accordance with contract specifications, and the submitting false claims for extra costs under the contract;
- contractors providing inferior good or services;
- contractors intentionally overriding minimum statutory pay and health and safety regulations for financial gain;
- contractors presenting false invoices; and
- contractors providing inflated performance information to attract greater payments than are due.

The NFA estimates that procurement fraud costs councils about £855 million a year and is working on a new way of quantifying these losses.

- *Housing and Council tax benefit fraud*

The Commission continues to emphasise the need for Councils to maintain their focus on housing and council tax benefit payments where nationally 59,000 cases of fraud were uncovered in 2010/11. The Audit Commission Survey showed that there are more detected HB/CTB fraud cases than any other type of fraud against councils.

- *Emerging Risks*

The Commission's survey reports on significant risks in 2010/11. These were identified as:

- The expansion of personal budgets in social services
- The impact of the current economic climate putting more pressure on individuals' 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.

Audit Commission Revised Checklist

- 4.5 The Audit Commission included in the report a "revised checklist for those responsible for governance" to help ensure that they have sound governance and counter-fraud arrangements that are working as intended. The checklist is an updated version of the checklists in the 2009 and 2010 Publications. These were completed and reviewed by Committee at its meetings on 3 December 2009 and 2 December 2010 and the updated version is attached at Appendix 2. The Corporate Anti-Fraud Group continues to address issues around fraud raised by the Audit Commission, NFA and other external organisations. All activities will be reported back to members by the Head of Governance and Assurance in the Governance Update reports.

Audit Commission Recommendations for Councils

- 4.6 The Commission recommends that councils:
- ensure they keep the capability to investigate fraud that is not related to housing benefit;
 - improve their use of data, information and intelligence to focus their counter-fraud work;
 - review their counter-fraud arrangements in the context of the NFA's strategy for local government, *Fighting Fraud Locally*, to be published shortly;
 - work with other registered social housing providers to improve the use of civil and criminal action to deter tenancy fraudsters;
 - use the Audit Commission's council tax single person discount (SPD) fraud predictor toolkit to assess the potential level of such fraud locally;

- review their performance against the NFA's good practice on tackling housing tenancy fraud and council tax fraud;
- ensure the National Fraud Initiative (NFI) data matches are followed up effectively, including those targeting council tax discount abuse (next data release due in February 2012);
- review personal budgets arrangements to ensure safeguarding and whistleblowing arrangements are proportionate to the fraud risk;
- follow good practice and match the successes of others; and
- use our checklist for those charged with governance (Appendix 2) to review their counter-fraud arrangements.

4.7 Anti-fraud measures have been a priority for the Council for a number of years. This is reflected in the actions it has already taken to reduce the risk of fraud.

OTHER OPTIONS CONSIDERED

5.1 N/A

This report has been approved by the following officers:

Legal officer	n/a
Financial officer	n/a
Human Resources officer	n/a
Service Director(s)	n/a
Other(s)	n/a

For more information contact: Richard Boneham, Head of Governance and Assurance, 01332 643280
richard.boneham@derby.gov.uk

Background papers: None

List of appendices: Appendix 1 – Implications
Appendix 2 – Checklist for those responsible for governance

IMPLICATIONS

Financial and Value For Money

- 1.1 None directly arising

Legal

- 2.1 None directly arising

Personnel

- 3.1 None directly arising

Equalities Impact

- 4.1 None directly arising.

Health and Safety

- 5.1 None directly arising.

Environmental Sustainability

- 6.1 None directly arising.

Asset Management

- 7.1 None directly arising.

Risk Management

- 8.1 The effective management of fraud related issues is a core principle of good governance.

Corporate objectives and priorities for change

- 9.1 The functions of the Committee have been established to support delivery of corporate objectives by enhancing scrutiny of various aspects of the Council's controls and governance arrangements.

Checklist for those responsible for governance

	Yes	No	Comments
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?		✓	There is no one overall dedicated team for Counter Fraud – but we do have resources spread across the Council
4. Do counter-fraud staff review all the work of our organisation?			Not Applicable
5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	✓		This is a regular agenda item for the Anti-Fraud Group.
6. Have we assessed our management of counter-fraud work against good practice?	✓		We are comparing against the CIPFA's Red Book 2.
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> • new staff (including agency staff) • existing staff • members; and • Contractors? 		✓ ✓ ✓ ✓	This is an area identified in the Fraud Action plan and the Governance and Assurance Business Plan. The Head of Governance and Assurance is currently working with the Communications Division to produce fraud awareness material.
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 intended? How quickly do we 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?	✓		

	Yes	No	Comments
Fighting fraud with reduced resources			
15. Have we reassessed our fraud risks since the change in the financial climate?	✓		Changing patterns of fraud are recorded so that Internal Audit staff are aware (updated at team meeting). This work is ongoing. Fraud risks are discussed at the Anti-Fraud Working Group.
16. Have we amended our counter-fraud action plan as a result?	✓		A revised fraud action plan has been produced by the Anti-Fraud Working Group and was approved by Committee in September 2011.
17. Have we reallocated staffing as a result?			Not Applicable as we do not have a dedicated resource
Current risks and issues			
Housing Tenancy			
18. Do we take proper action to ensure that we only allocate social housing to those in need?	✓		
19. Do we ensure that social housing is occupied by those to whom it is allocated?	✓		Derby Homes has undertaken a series of visits.
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 OFT into cartels and compared them with best practice?	✓		
Recruitment			
22. Are we satisfied that our recruitment procedures 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; and 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?	✓		This was the subject of an audit review in 2010/11.

	Yes	No	Comments
24. Have we updated out whistleblowing arrangements for 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?	✓		In addition to the NFI exercises (next cycle due February 2012) Council Tax is subject to the ongoing data matching activities.
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?	✓ ✓ ✓	✓	. The Council has signed up to Experian's investigator online (IOL) – but as yet the data has not been made available.