



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS  
COMMITTEE  
3 DECEMBER 2009**

Report of the Head of Audit and  
Risk Management

# ITEM 17

## Protecting The Public Purse

### RECOMMENDATION

- 1.1 To note the report.

### SUPPORTING INFORMATION

- 2.1 On 15 September 2009, the Audit Commission published its latest national report on fraud, "Protecting the public purse". At the Committee meeting on 24 September 2009, Members were provided with the Audit Commission's summary report.
- 2.2 The national report considers the key fraud risks and pressures facing councils and related bodies and identifies good practice in fighting fraud. The Audit Commission states that "it has never been more important that councils fight fraud. Every pound lost to cheats is a pound that cannot be used for people in real need". The report identifies specific risks that the Audit Commission consider are often not adequately addressed at a local level:
- housing tenancy fraud
  - false claims for single person discount on council tax and
  - recruitment fraud.

The Audit Commission also identifies other fraud risks that it felt still need to be tackled:

- the amount lost through housing and council tax benefit fraud
- procurement frauds
- misuse of social care direct payments
- misuse of disable parking concessions
- insurance claims and
- abuse of position.

The report provides an overview of the threats of fraud facing councils and suggests that Councils reassess their counter fraud plans and ensure that staff understand, and have faith in, whistle-blowing arrangements.

- 2.3 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. The paragraphs below outline the measures the Council has in place around those areas identified by the Audit Commission that it feels still are not being properly addressed by Councils.

### ***Housing Tenancy Fraud***

- 2.4 Housing tenancy fraud is the use of social housing by someone not entitled to occupy that home. It includes:
- when people submit false housing applications;
  - tenancy succession fraud, where the property is no longer occupied by the original tenant; and
  - the illegal sub-letting of a property for profit
- 2.5 The Audit Commission believes that there is the need for effective partnership working between Councils, arms length management organisations and housing associations. It suggests that organisations should make sure that their approach to performance management encourages housing officers to play an appropriate part in identifying and preventing housing tenancy fraud by the inclusion of an appropriate target.
- 2.6 In August 2009, the Government asked all authorities to join a national drive to crack down on the unlawful sub-letting of properties in the social housing sector. The measures announced include incorporating Registered Social Landlords (RSL's) tenancy information in a new run of the housing module of the NFI. The Council has submitted its current tenants' data. The matches from this exercise should be available in January 2010. When this exercise was announced by the Audit Commission applications were invited for funding to be used for activities to prevent tenancy fraud. The Housing Strategy and Performance Manager has applied for funding and is awaiting confirmation of an award from the Department for Communities and Local Government.
- 2.7 Derby Homes has recently attended a scoping meeting hosted by Experian, in conjunction with the Director of the National Anti-Fraud Network, to identify what the priorities would be for developing a methodology to prevent and detect tenancy fraud.

### ***Single Person Discount (SPD) Fraud***

- 2.8 The Council has 39,580 single adult households out of a total dwelling stock of 105,405. This equates to 37.5% which is slightly higher than the national average of 35%. This is borne out by comparison with the last Census, when the figures showed Derby as having 2% more single person households than the national average. (0.3% more single pensioner households, 0.9% more lone parent households and 0.8% more single occupier households)
- 2.9 Within our core business the Council takes the following steps to minimise the possibility of fraudulent claims for SPD;
- Participating in the National Fraud Initiative (NFI) data matching exercise. This exercise, which has already been reported to this Committee, has been very

successful and led to 196 SPD's being cancelled, raising income (£140,357.26). A further data matching exercise will take place in 2010. The council tax data has already been submitted and the Electoral Registration data is due shortly. The matches will be available in March 2010.

- Every Council Tax payer is notified of their responsibility regarding entitlement to discount. This includes reporting lines and the timescales for reporting any changes; together with the potential consequences should such a change not be reported.
- We liaise and share information with the Benefits team daily to determine households where information doesn't match and, on a weekly basis, a report is generated to identify any mismatches between the Council Tax and Benefits systems, which are then acted upon.
- Any individual case where SPD fraud is suspected is challenged and not granted until the necessary confirmation has been received. This includes internal checks and the use of the Visits Team if required. Households where it is proven that an SPD has been claimed fraudulently will have their Council Tax account amended back to the date the fraud took place. This can mean a debit being placed on the account spanning many years.

- 2.10 We are considering other steps to take to validate SPD claims. One possible approach would be to use a third party supplier to undertake an SPD review for us. This has been considered previously but the introduction of the NFI exercise meant that this would be a duplication of work at that time. Such an approach has not been taken up until internal checks have been carried out as we would be charged on a "payments by results" basis.

### ***Recruitment Fraud***

- 2.11 At the Committee meeting on 26 June 2008, members received a report on pre-employment checks from the Head of Audit and Risk Management. The Assistant Director – Human Resources attended the meeting to provide assurances to Members that controls over recruitment were operating correctly. This followed a recent fraud at the Council which highlighted the fact that the employee had wrongfully gained employment initially as adequate pre-employment checks had not taken place. It was identified that he had failed to bring in his proof of qualification but this was not pursued to conclusion and his employment had been allowed to continue. The officer went on to commit theft and defraud the Council.
- 2.12 The Economic Crime Unit (Derbyshire Constabulary) expressed concerns with the Council's poor pre-employment checks and advised that significant improvements must be made to the recruitment process to prevent fraudsters from being employed and also deter others from applying for posts in the first instance. The consequences of employing fraudsters include the risk of fraud, corruption, terrorism or simply in employing people that are not competent. This may lead to significant financial and reputational damage.
- 2.13 In response, Human Resources has recently introduced guidance for management when recruiting a new employee which covers pre-employment checks. The Employee Services Centre will support managers with advice and guidance but the

recruiting manager is ultimately accountable for recruitment decisions. These new arrangements are currently the subject of an Internal Audit review to ensure that guidance is sufficient and best practice is being adhered to.

- 2.14 In addition to the Internal Audit review that covers specifically pre-employment checks, the Head of Audit and Risk Management has commissioned a review of personnel security from Derbyshire Constabulary. The review covered the Council's security culture, pre-employment checks and ongoing security vetting of employees. The Head of Audit and Risk Management will the findings of this report to the March 2010 meeting.
- 2.15 Internal Audit is also working with National Anti-Fraud Network to identify best practice for pre-employment checks which will be disseminated across the public sector.

### ***Housing and Council tax benefit fraud***

- 2.16 The Council has a dedicated resource for the investigation of housing and Council tax benefit fraud. The investigation of HB fraud has been a priority for the City Council for the past 20 years. Within our core business the Council takes the following steps in respect of Counter Fraud Activities in Housing and Council Tax Benefit administration.
- Programme of risk-based interventions - The benefits section uses risk analysis to identify claims that are likely to have unreported claim changes. These claimants are then visited to ascertain whether their circumstances have changed and their income levels and household details are re-verified. There is a rolling monthly programme of claim interventions. This reduces the risk of error and/or fraud entering the caseload.
  - Fraud awareness training for staff - The counter-fraud team conducts fraud awareness sessions for all new starters and conducts refresher training when appropriate.
  - Fraud awareness and referral via internet - Staff can access fraud awareness material and also make a referral using Derbynet.
  - Fraud hot line - The Council deploys a dedicated fraud hotline which is advertised in public buildings throughout Derby. Anonymous referrals can be made by the Public on this line.
  - Sanctions and prosecution policy - The sanctions and prosecution guidelines provided a robust framework for the application of the Council's counter-fraud policy. The DCC policy is aligned with the DWP policy to ensure that the application of sanctions and counter-fraud activity, such as interviews under caution, is consistent.
  - Joint working with DWP - The council has joint counter-fraud working arrangements with the DWP's counter fraud service which are monitored via a service level agreement. This provides shared resources and facilities to interview. It also allows both organisations to demonstrate the full value of any fraud to the judiciary.

- Participate in data matching exercises with DWP and NFI - DCC extracts and exports its benefit data on a monthly basis to the DWP, who match DCC data with DWP data. DCC analyses and investigates any subsequent referrals. DCC also participates in National Fraud Initiatives which are conducted every 2 years and match data with other Councils and organisations. Referrals from these initiatives are investigated.
- Risk based approach to fraud referrals - All fraud referrals are risked assessed to determine the likelihood of fraud before investigation. This allows for efficient use of investigative resources and ensures that the ratio of fraud investigated to fraud proven is robust.
- Intelligence led investigations - The section conducts intelligence led investigation to ensure that evidence is gathered before any interview takes place. This reduces the need for speculative interviews and, by concentrating resources on cases where the intelligence obtained is strong, increases the likelihood of the fraud being proven in those cases that do reach the interview stage. Intelligence is gathered from a DWP approved source and complies with the legal framework for gathering evidence.

### ***Procurement frauds***

- 2.17 Derby City Council has recently reviewed and reissued the Contract Procedure Rules which govern the establishment and operations of contracts. Following the review, an extensive cycle of training was given by the Procurement Team to all relevant officers to make sure they were aware of their duties and responsibilities under the Rules. Section 15 of the Rules deals specifically with the Avoidance of Corruption and covers conflicts of interest, declarations of interest, gifts and rewards and the penalties should an officer fail to comply.
- 2.18 The Procurement Code gives guidance on the detection of cartels, together with steps to take to reduce the likelihood of bid rigging or collusive tendering. This document also includes guidance on contract management and dealing with performance issues which can be indicators of potential fraudulent activity.
- 2.19 Both the Contract Procedure Rules and the Procurement Code are easily accessible on Derbynet.

### ***Misuse of social care direct payments***

- 2.20 This area was highlighted in Protecting the Public Purse due to the high cost of adult social care in England (in 2007/8 the total public cost was £13.3 billion). The report gives an example of the misuse of direct care payments where the claimant was not disabled as he had claimed. It is intended that the Council's Anti-Fraud Working Group will review what measures are currently in place within the Council for preventing and detecting this type of fraud.

### ***Misuse of disabled parking concession***

- 2.21 The report recommends using the recent NFI matching exercise to prevent renewal of these badges after the original applicant has died. Derby City Council has

arranged for copies of the Registrars List listing all deaths to be copied to the parking concession team so that the team are aware of which badges should not be renewed.

### ***Fraudulent insurance claims***

- 2.22 Protecting the Public purse reports on the inclusion of Insurance data in the NFI matching programme and how this can be used to identify serial claimants and those submitting duplicate claims to neighbouring authorities.
- 2.23 The data matching programme being run by Internal Audit repeats the serial claimant check more frequently than the biennial NFI exercise and will also check to ensure that benefit claimants declare any additional income from insurance claims made against the authority.
- 2.24 All claims are handled by our insurer and they intimate if there is a problem but they do not formally identify to the Council if a claim is fraudulent. The Insurance Section is only aware that a claim has been withdrawn not the reason behind it.

### ***Abuse of position***

- 2.25 The report raises the profile of staff fraud and the necessity of effective internal controls. This area is a high priority and the Anti-Fraud Working Group will be addressing this issue.

### ***Audit Commission Checklist***

- 2.26 The Audit Commission included in the report a “checklist for those responsible for governance” to help ensure that they have sound governance and counter-fraud arrangements that are working as intended. This checklist has now been completed and is attached at Appendix 2. There are a number of areas identified where improvements can be made. All of the areas identified will be addressed through the Corporate Anti-Fraud Group and reported back to members by the Head of Audit and Risk Management in the Governance Update reports.

### ***Audit Commission Survey***

- 2.27 In the national report, the Audit Commission undertook to conduct an annual survey of local government and related bodies looking at existing and emerging risks and levels of identified fraud and associated losses. The information helps ensure that the Audit Commission has a better picture of the real threats. This is an online survey which has to be completed and submitted by 6 December 2009. The Head of Audit and Risk Management is co-ordinating the Council's submission. It is clear from the content of the survey that Internal Audit will require a detailed reporting mechanism whereby all departments must notify the Head of Audit & Risk Management of all suspected frauds.

**For more information contact:** Richard Boneham, Head of Audit and Risk Management, 01332 255688  
richard.boneham@derby.gov.uk

**Background papers:**

**List of appendices:**

Appendix 1 – Implications

Appendix 2 – Checklist for those responsible for governance

<b>IMPLICATIONS</b>
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**Financial**

1. None directly arising

**Legal**

2. None directly arising

**Personnel**

3. None directly arising

**Equalities impact**

4. None directly arising.

**Corporate objectives and priorities for change**

5. 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	Actions/Comments
<b>General</b>			
1. Have we committed ourselves to zero tolerance against fraud?	✓		
2. Do we have appropriate strategies, policies and plans?	✓		
3. Do we have dedicated counter-fraud resources?		✓	There is no one overall dedicated team for Counter Fraud – but we do have resources spread across the Council
4. Do the resources cover all of the activities of our organisation?			Not Applicable
5. Do we receive regular reports on fraud risks, plans and outcomes?		✓	Will be an outcome of the Anti-Fraud working group
6. Have we assessed our management of counter-fraud resources against good practice?		✓	Will be an outcome of the Anti-Fraud working group
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> <li>members?</li> </ul>		✓ ✓ ✓	Will be agenda items for Anti-Fraud Working group
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?	✓		
9. Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?	✓		
10. Do we identify areas where internal controls may not be performing as intended?	✓		
11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on	✓		



outcomes?			
<b>Fighting fraud in the recession</b>			
12. Have we reassessed our fraud risks because of the recession?		✓	Changing patterns of fraud are recorded so that Internal Audit staff are aware (updated at team meeting) and will form a regular agenda item at the Anti-Fraud working group
13. Have we amended our counter-fraud action plan as a result?		✓	The fraud action plan is to be reviewed regularly by the Anti-Fraud Working Group
14. Have we reallocated staffing as a result?			Not Applicable as we do not have a dedicated resource
<b>Some current risks and issues</b>			
15. Do we take effective action to ensure that social housing is allocated only to those in need?		✓	This is an area that the Anti-Fraud Working Group will be investigating.
16. Do we take effective action to ensure that social housing is occupied by those to whom it is allocated?	✓		Derby Homes are actively participating in a workshop on combating tenancy fraud in November '09.
17. Are we satisfied that payment controls are working as intended?	✓		
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?	✓		
19. Are we satisfied that our recruitment procedures are: <ul style="list-style-type: none"> <li>preventing employment of people working under false identities?</li> <li>validating employment references effectively?</li> <li>ensuring applicants are eligible to work in the UK?</li> </ul>	✓	✓	<p>This is currently the subject of an internal audit review.</p> <p>The audit has not found any evidence to verify this is happening.</p> <p>The procedure has recently been changed and there is no evidence to make a judgement on it</p>
20. Where we are moving to direct payments (for example, social care) have we introduced suitable and proportionate control arrangements in line with		✓	This is an area that the Anti-Fraud Working Group will be investigating.

recommended practice?			
21. Are we effectively controlling the discounts and allowances we give to council taxpayers?	✓		In addition to the NFI exercises (next cycle due March 2010) CT is subject to the ongoing data matching activities.
22. Are we satisfied that we are doing all that we can to tackle housing and council tax benefit fraud?	✓		BIU are actively seeking additional cases and are involved with the data matching exercise where benefit cases are being checked.
23. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?	✓		This area is being updated.