



Audit Commission - Protecting The Public Purse 2012

SUMMARY

- 1.1 This report provides members with a synopsis of the Audit Commission's latest national report on fraud in local government and the updated 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 8 November 2012, the Audit Commission published its latest national report on fraud, "Protecting the Public Purse 2012". The national report describes the latest developments in fraud detection and prevention since 2011 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 2012 the National Fraud Authority (NFA) estimated that:
- Each year, public, private and third sector organisations, as well as individuals lose over £73 billion to fraud (up from £38 billion last year);
 - Fraud costs every adult in the country £1,460 a year (up from £765 last year); and
 - Fraud against public sector organisations costs £20.3 billion, with fraud against councils costing more than £2.2 billion a year (up from £2 billion last year).

- 4.3 Last year, local authorities across the country detected more than 124,000 cases of fraud with a value of £179 million, with more than half of these cases being benefit fraud valued at £117,000, nearly £21 million in council tax fraud through wrongly claimed discounts and exemptions, and 187 cases of procurement fraud valued at over £8million.
- 4.4 Tenancy fraud is still the highest value area of loss to local government. The Audit Commission research estimates 98,000 social housing homes in England are subject to housing tenancy fraud, the majority of which occur in London.
- 4.5 The rapidly changing regulatory environment within local government is highlighted as presenting potential significant challenges in tackling fraud. These changes include;
- The ability to retain a portion of the local business rates collected from April 2013;
 - The increased value of discount available under Right to Buy legislation from April 2012;
 - The responsibility for administering Social Fund payments in the form of local Welfare Assistance from April 2013;
 - The function of administering local Council Tax Support from April 2013;
 - The creation of a Single Fraud Investigation Service (SFIS) from April 2013;
 - and
 - Greater autonomy for schools.

As a response to these forthcoming changes, the Audit Commission recommends that the government extend the existing investigatory powers held by benefit fraud investigators to those investigating frauds that are not benefit related, that councils review the potential benefits of greater joint working, and consider the benefits of developing a dedicated corporate counter-fraud capability.

- 4.6 The emerging fraud risk areas identified by the Audit Commission's report are:

- *Business Rates*

Frauds associated with business rates include:

- False claims for mandatory or discretionary rate relief or empty property exemption;
 - Failure to declare occupancy of a property;
 - False use of insolvency status with the intent to evade rate payment;
 - and
 - Not disclosing relevant information – eg about the size of the company, to gain rate relief
- *Social Fund payments and Local Welfare Assistance*

This is a new area of activity for local authorities, as until April 2013 all Social Fund payments are being managed by the Jobcentre Plus. After April, the Local Welfare Assistance scheme will be operated by local authorities.

- *Right to Buy discounts*

Fraud can occur when someone provides false information on application, or when someone applies for discount when they are occupying unlawfully. Although the recorded number of such frauds is low, the potential cost is high with 38 reported cases in 2011/12 valued at £1.2 million.

- *Local Council Tax Support*

The report identifies the change from Council Tax Benefit to a locally devised Council Tax Support scheme as an area where particular attention needs to be paid to minimising the risk of fraud.

- *Schools*

The Commission lists fraud committed both internally and externally against schools in recent years, including;

- fraudulent transfers of school funds,
- expenses frauds,
- altering cheques,
- mandate frauds,
- procurement frauds and
- finance lease frauds.

Guidance has been issued to schools in the form of "Fraud Risks in Schools – Advice for School Governors". Following the publication of this document last year, the Commission noted that the number of suspicions of fraud received which related to schools, exceeded the total of reports for all other sectors during 2011/12. The developments which are taking place in education, particularly the growth of academies, foundation and free schools, mean that the whole sector is in a state of change. The Commission noted that this is when fraud risks usually increase.

- *Grants*

Grant frauds most commonly include false applications and failure to use the grant for its intended purposes. In 2011/12 there were 45 grant frauds with a value of £1.8 million, an increase of £500,000 on the previous year.

Audit Commission Revised Checklist

- 4.7 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, 2010 and 2011 Publications. These were completed and reviewed by Committee at its meetings on 3 December 2009, 2 December 2010 and 1 December 2011 and the updated version is attached at Appendix 3. 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

4.8 The Commission recommends that councils:

- Maintain a capability to investigate non-housing benefit related fraud, proportionate to the risk;
- Ensure they have effective and proportionate defences against emerging fraud risks, including business rates, Social Fund and Local Welfare Assistance, Right to Buy discounts, Local Council Tax Support, schools and grants;
- Explore partnership and funding arrangements in two-tier areas to incentivise district councils to investigate council tax discount fraud;
- Share investigative resources with other social housing providers to tackle tenancy fraud; and
- Assess the potential benefits and cost savings of greater joint working with other councils.

4.9 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)	Chief Officer Group

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – National Results of the Annual Fraud Survey 2012 Appendix 3 – 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 risk 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.

Annual Fraud Survey results

	2011/12 national results	2010/11 national results	2011/12 Derby City Council *	2010/11 Derby City Council*
Total value	£179 million	£185 million	£672,972	£469,370
Total number of cases	124,000	121,000	227	188
Housing Benefit / Council Tax benefit - value	£117 million	£110 million	£672,972	£469,370
cases	54,000	59,000	222	187
Council tax discounts - value	£21 million	£22 million		
cases	61,000	56,000	0	0
Procurement - value	£8.1 million	£14.6 million		
cases	187	145	0	0
Abuse of position – value	£5.6 million	£4.3 million		
cases	297	395	0	0
Payroll, pensions and expenses – value	£3.5 million	£5.6 million		
cases	640	556	0	0
Disabled parking concessions (blue badges) value	£2.4 million	£1.5 million		
cases	4809	3007	5	1
False insurance claims – value	£2.1 million	£3.7 million		
Cases	132	149	0	0
Social care – value	£2.2 million	£2.2 million		

cases	122	102	0	0

* information provided by services in completion of the Annual Fraud Survey

Appendix 3

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 out strategy with Fighting Fraud Locally?	✓		
3. Do we have dedicated counter-fraud staff?		✓	There is no single 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?	✓		
6. Have we assessed our management of counter-fraud work against good practice?	✓		.
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	✓		

	Yes	No	Comments
laundering?			
13. Do we have effective arrangements for: <ul style="list-style-type: none"> • Reporting fraud; • Recording fraud; and • whistleblowing ? 	✓ ✓ ✓		
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 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?	✓		
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 <ul style="list-style-type: none"> • prevent us employing people working under false identities; • confirm employment references effectively; • ensure applicants are eligible to work in the UK;and • 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	✓		

	Yes	No	Comments
safeguarding proportionate to risk and in line with recommended good practice?			
24. Have we updated our whistleblowing arrangements for staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	✓		
Council Tax			
25. Do we taken proper action to ensure that we only award discounts and allowances to those who are eligible?	✓		
Housing and Council Tax benefits			
26. When we tackle housing and council tax benefit fraud do we make full use: 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.
Emerging fraud risks			
27. Do we have appropriate and proportionate defences against emerging fraud risks: • business rates: • Right to Buy: • Social Fund and local Welfare Assistance: • Local Council Tax Support: • Schools; and • Grants?	✓ ✓ ✓ ✓ ✓ ✓		