

Internal Audit review: Strategic Fraud Update

Audit Committee

Date: 15th April 2014

Author:	Head of Internal Audit
Wards:	None
Locality Affected:	None
Parishes Affected:	None

1. Purpose and Reasons

- 1.1 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.2 The pro-active and investigative work of Internal Audit contributes to this assurance framework.

2. Recommendations

- 2.1 It is recommended that the contents of the report be noted.

3. Detail

Background

- 3.1 The Audit Commission's publication *Protecting the Public Purse 2013* states that fraud against public sector organisations costs more than £20.6 billion, with fraud against local government costing more than £2 billion a year. Other research estimates that the economic cost of fraud to organisations across the world averages at 5.7% of their budget with 70% of organisations globally losing 3% of their budget (source: PKF Forensic Services).
- 3.2 In a time of austerity, preventing fraud becomes even more important. Every pound lost through fraud cannot be spent on providing services. It is vital that the Council has strong counter-fraud cultures and effective counter-fraud arrangements.
- 3.3 The purpose of this report is to provide assurance on the effectiveness of the counter fraud work completed across the Council.

Fighting Fraud Locally

- 3.4 Through the introduction of a Cabinet Office Counter Fraud Task Force and the National Fraud Agency's (NFA) national cross sector strategy, *Fighting Fraud Locally*, to reduce fraud affecting the country and its economy, the Government has indicated a step change in how seriously it considers the issue of fraud in the public sector.

Further information on the subject of this report can be obtained from Nick Hobbs, Head of Internal Audit, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

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3.5 *Fighting Fraud Locally* was the first national strategy developed by local government to tackle fraud against local government. The report focussed on non-benefit fraud areas, in particular, housing tenancy, council tax discounts, procurement, grants, employees, schools and personal budgets. The report highlights councils' performance in tackling these fraud risks. The strategy also highlights good practice and provides practical examples of successful counter-fraud measures.

3.6 A link to the full report is below:

<http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/fighting-fraud-locally-strategy/>

3.7 As part of the government's reforms to policing the fight against fraud the Home Secretary has announced that the NFA will close and its responsibilities will be realigned to reflect the creation of the National Crime Agency.

Audit Commission

(a) Report: Protecting the Public Purse 2013 – Fighting fraud against local government

3.8 This Audit Commission national report sets out their most recent findings resulting from their National Fraud Initiative (NFI) Data Matching exercise and Annual Survey on fraud. The Commission acknowledge that local government bodies are targeting resources more efficiently and effectively.

3.9 The report highlights areas where high levels of fraud have been identified in their survey, these include:

- Housing and council tax benefit
- Housing tenancy
- Council tax discount
- Business rates
- Direct payments/ Personal budgets
- False insurance claims
- Disabled parking concessions
- Procurement
- Schools
- Internal fraud

3.10 The report also provides a checklist for those responsible for governance. An updated assessment against the checklist will be brought back to a later meeting of the committee.

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3.11 A link to the full Audit Commission report is below:

<http://www.audit-commission.gov.uk/2013/11/protecting-the-public-purse-2013/>

(b) Report: Protecting the Public Purse 2013 – Fraud Briefing

3.12 This briefing, produced by the Audit Commission, takes the findings from their annual fraud survey and uses them to compare Swindon's performance against other southern unitary authorities. It compares detected fraud in areas such as housing benefit and council tax benefit; council tax discount; social housing (recovered properties); right to buy and disabled parking (blue badges).

National Fraud Initiative

3.13 The Council, via Internal Audit, has again participated in the Audit Commission's National Fraud Initiative (NFI) as part of the statutory external audit requirements. The NFI brings together data from across the public sector including local authorities, NHS, the Home Office/ other government departments and other agencies to detect 'matches' i.e. anomalies in the data which may or may not be indicative of fraud, for further investigation.

3.14 Since its launch in 1996, the NFI is reported to have identified fraud, overpayments and error totally in excess of £450 million, nationally.

3.15 The Council submitted data for the latest exercise from the following data sets:

- Payroll
- Pensions
- Trade creditors' payment history and Trade creditors' standing data
- Housing
- Housing benefits
- Council tax
- Electoral register
- Private supported care home residents
- Transport passes and permits (including residents' parking, blue badges and concessionary travel)
- Insurance claimants
- Licences - Market trader/operator, Taxi driver and Personal licences to supply alcohol

3.16 The results from the data matching provided 9,886 hits for Swindon of which 2,001 were recommended matched i.e. where the quality of the hits was

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sufficient to warrant further investigation. A summary of the findings to date is set out below:

- *Creditors:* The NFI duplicate payment matches were superseded by work carried out by Internal Audit, using their own processes to identify duplicate payments over a three year period. This work has identified £27,000 of previously unrecovered duplicable payments, which are now in the process of being reclaimed from suppliers.
- *Housing Benefits:* Numerous matches were received from the Audit Commission. Matches are currently under investigation by the Housing Benefit Fraud Team. Two frauds have been proven from investigations carried out so far, to the value of £2,500.
- *Blue Badges to Deceased Persons:* Work with the service area identified 33 deceased current blue badge holders. As a result these badges have now been cancelled. Eight records for further investigation have been identified and notified to the section. The Council was able to cancel one additional blue badge as a result of the exercise, as it was found that a non-deceased badge holder had current passes in both Wiltshire and Swindon.
- *Concessionary Travel to Deceased Persons:* Work with the department identified 149 deceased current badge holders for cancellation, which will prevent future renewal. A further 74 records for investigation have been identified and notified to the section. A further 24 records with out-of-date addresses were also identified from the exercise.
- *VAT:* A number of potentially incorrect payments of VAT against supplier invoices were investigated, but were found to have been paid at the correct amount when review. No further action was required.
- *Insurance:* Two cases of potential serial insurance claims were reported to the Council. These were found to be legitimate claims in both cases. No further action was required.
- *Immigration cases:* Several potential cases of housing tenants not having the correct immigration status were identified through the NFI exercise. Internal Audit worked with the UK Borders Agency to review these cases. All queries in relation to the cases raised have been resolved to their satisfaction and one case has been handed over to the Borders Agency for pastoral assistance in relation to their immigration status.

- 3.17 There are still on-going investigations in relation to the above (and other) NFI reports. Results from data matching Council Tax Single Person discounts to the Electoral Register have recently been received and will be prioritised and investigated during 2014/15.

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CIPFA

- 3.18 Further details were set recently on where the Audit Commission's functions will transfer. CIPFA has been asked by ministers to take over counter-fraud areas including the publication of the annual *Protecting the Public Purse* report.
- 3.19 The aim of the new centre will be to work with partners from across the public sector to become a global authority on counter-fraud for public services. This will also include publication of a counter-fraud manual, accredited training and the sharing of good practice when the centre opens in June 2014.

Internal Audit response

- 3.20 Internal Audit continually reviews its approach to fraud work. Resources have been allocated within the plan to carry out proactive work and a contingency is also included to carry out reactive work such as fraud investigations.
- 3.21 Areas identified within the Audit Commission report *Protecting the Public Purse 2013* i.e. housing tenancy, procurement, council tax discounts and housing and council tax benefits, were also reviewed and informed the planning for 2014/15.
- 3.22 The Council's Anti-Fraud and Bribery Strategy is reviewed annually to ensure that it sets out best practice and complies with relevant legislation. A review against other relevant Council policies i.e. the Council's Code of Conduct, Disciplinary Policy, Whistleblowing Policy and Fraud Response Plan is currently being finalised and will be reported to the Council's Monitoring Officer and Head of People and Change as well as the Section 151 Officer.
- 3.23 The NFA's *Fighting Fraud Locally* also informs the Fraud work carried out by Internal Audit. This is also an area of focus for the West of England Chief Internal Auditor's Fraud Sub Group (which consists of all the county and unitary authorities in the West of England and which the Head of Internal Audit is currently Chair).
- 3.24 The Sub-Group also carry out benchmarking exercises amongst themselves. The most recent exercise benchmarked Council's arrangements for Whistleblowing and helped inform the review mentioned above. The sub-group also identify areas of good practice and exchange experiences on recent frauds within their authorities.
- 3.25 The NFA have also issued a fraud awareness CD that has recently been put on to the Learning Zone webpage. Publicity regarding this training package will be issued shortly.
- 3.26 The Internal Audit section also produces a Fraud Bulletin which highlights recent frauds that have occurred throughout the country and asks the question 'are our

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system controls sufficient to prevent these frauds happening in Swindon?' A copy of the latest bulletin is available in the Members Room and will be circulated at the Audit Committee meeting.

3.27 Fraud Alerts are also issued by Internal Audit when they become aware of scams/frauds that need to be alerted to relevant staff i.e. recent fraudulent attempts to change suppliers' bank account details.

3.28 Data Matching: As mentioned above, £27,000 worth of duplicate payments were identified by Internal Audit through our own data matching. This proved to be more effective than the NFI data matching and is something that we will look to undertake quarterly. The section is also looking to increase their current data matching to identify further potential fraud or error.

3.29 The following table provides a brief summary of the levels of investigations undertaken by Internal Audit over the past few years:

	2010/11	2011/12	2012/13	2013/14
Whistleblowing cases	4	5	6	9
Other Investigations	9	11	13	8
Total	13	16	19	17

3.30 The outcomes of all Whistleblowing cases are reported to the Standards Committee.

3.31 Internal Audit keep abreast of local and national developments both through the West of England sub-group mentioned above, through regular liaison with other authorities and through the National Anti-Fraud Network (NAFN) of which the Head of Internal Audit is a member of the Executive Board.

3.32 Internal Audit is also looking to build closer working relationships with the Benefit Fraud Team Leader to explore joint working and the possibility of a corporate fraud team.

4. Alternative Options

4.1 Not Applicable

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5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report however the detailed audit report addresses the suitability of internal controls within the systems examined

Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2011. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 None

Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 Effective systems of internal control within the Council will help to ensure that the objectives set out One Swindon are achieved.

Diversity Impact Assessment

- 5.5 Not Applicable

Risk Management

- 5.6 Not applicable

6. Consultees

- 6.1 The Board Director Finance, Revenues, Benefits and Property (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 None