

Internal Audit: Strategic Fraud Update

Audit Committee

Date: 16th June 2015

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. This report is intended to provide assurance to the Audit Committee regarding the effectiveness of Internal Audit's counter fraud and error arrangements within the Council.

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 2014*' states that the scale of fraud against local government is large, but difficult to quantify with precision. However, in 2013, the National Fraud Authority estimated that fraud cost local government £2.1 billion, but states that this is probably an underestimate.
- 3.2 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).
- 3.3 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.
- 3.4 The purpose of this report is to provide assurance on the effectiveness of the counter fraud work completed across the Council.

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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Fighting Fraud Locally

- 3.5 *Fighting Fraud Locally* (published by the National Fraud Authority) 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 The CIPFA Counter Fraud Centre will also publish the next Fighting Fraud Locally strategy for local government, following the closure of the National Fraud Authority (NFA) in March 2014.
- 3.7 A link to the full report is below:
<http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/fighting-fraud-locally-strategy/>

Audit Commission

(a) Protecting the Public Purse 2014

- 3.8 The Audit Commission publication '*Protecting the Public Purse 2014*' was the last in the series before they closed in March 2015. The aim of this series of publications (first produced in 1991) has been to:
- raise awareness of the importance of fighting fraud
 - promote transparency and accountability about counter-fraud in local government bodies
 - improve data on fraud detection, including benchmarking; and
 - promote good practice in fighting fraud.
- 3.9 The report highlights areas where high levels of fraud have been identified in their survey, these include:
- Housing and council tax benefit; council tax discount
 - Housing tenancy and right to buy
 - Social care
 - Insurance
 - Procurement
 - Abuse of position and internal fraud
 - Disabled parking (blue badge) concessions
 - Business rates
 - Payroll

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- 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.
 - 3.11 A link to the full Audit Commission report is below:
<http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Public-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf>
 - 3.12 From April 2015, the Commission's counter-fraud activities will transfer to new organisations. When the Commission closes, the National Fraud Initiative's (NFI) data matching service will transfer to the Cabinet Office. The remainder of their counter-fraud staff and functions, including the PPP series and fraud briefings, will transfer to the Counter Fraud Centre, run by the Chartered Institute of Public Finance and Accountancy (CIPFA).
 - 3.13 Other changes include the creation of the National Crime Agency, established in 2014, which has taken over some of the activities previously carried out by the Serious and Organised Crime Agency (SOCA).
 - 3.14 For councils, the most important change in their counter-fraud arrangements is the transfer of most of their benefit fraud investigators to the Single Fraud Investigation Service (SFIS), which is managed by the Department for Work and Pensions (DWP). The transition to the SFIS began in July 2014 and will be complete by March 2016. Swindon's Housing Benefit fraud team will be in the last batch of councils to transfer in March 2016. Existing Housing Benefit staff will transfer across to the DWP at that date.

(b) Report: Protecting the Public Purse 2014 – Fraud Briefing

- 3.15 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 similar 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).
- 3.16 The report shows that generally there is a lower level of detected fraud in Swindon than the average unitary authority. A full copy of the Fraud Briefing is available from the Head of Internal Audit.

(c) National Fraud Initiative

- 3.17 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

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agencies to detect 'matches' i.e. anomalies in the data which may or may not be indicative of fraud, for further investigation.

- 3.18 Since its launch in 1996, the NFI is reported to have identified fraud, overpayments and error totally in excess of £1.17billion, nationally.
- 3.19 The Council submitted data for the latest exercise from the following data sets:
- Payroll
 - 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
- 3.20 The results from the data matching provided 4,856 hits for Swindon of which 1,602 were recommended matches i.e. where the quality of the hits was sufficient to warrant further investigation.
- 3.21 Those matches relating to Housing Benefit will be referred to the Housing Benefit Fraud team for investigation. All the other cases will be investigated by Internal Audit. Results from these investigations will be reported back to a later Audit Committee.

CIPFA

- 3.22 As mentioned above, on closure of the Audit Commission, CIPFA's Counter Fraud Centre will take over counter-fraud areas including the publication of the annual '*Protecting the Public Purse*' report.
- 3.23 The aim of the Counter Fraud 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.

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Local Government Transparency Code 2014

- 3.24 The Local Government Transparency Code 2014 requires councils to publish annually the following information, in relation to fraud, from February 2014:
- Number of occasions they use the Prevention of Social Housing Fraud (Power to Require information) (England) Regulations 2014, or similar powers. For Swindon this was 123 occasions during 2013/14.
 - Total number (absolute and full-time equivalent) of employees undertaking investigations and prosecutions of fraud. For Swindon this was 3 absolute and 2.2 full time equivalents during 2013/14.
 - Total number (absolute and full-time equivalent) of professionally accredited counter fraud specialists. For Swindon this was one during 2013/14.
 - Total amount spent by the authority on the investigation and prosecution of fraud. For Swindon this was £95,000 for 2013/14.
 - Total number of fraud cases investigated. 123 cases were investigated in Swindon.

These details have been published on the Council's internet site for 2013/14 and will be updated in June 2015 for 2014/15.

Internal Audit response

- 3.25 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.
- 3.26 Areas identified within the Audit Commission report '*Protecting the Public Purse 2014*' i.e. housing tenancy, procurement, council tax discounts and housing and council tax benefits, were also reviewed and informed the planning for 2015/16.
- 3.27 The Council's Anti-Fraud and Bribery Strategy is reviewed regularly to ensure that it sets out best practice and complies with relevant legislation. Internal Audit reviewed the Strategy against other relevant Council policies i.e. the Council's Code of Conduct, Disciplinary Policy, Whistleblowing Policy and Fraud Response Plan.
- 3.28 A self-assessment against the Audit Commission's *Fighting Fraud Checklist for Governance* has been undertaken and is attached as Appendix 1. Areas for development will be included in the section's improvement plan.
- 3.29 The Internal Audit section is represented on 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). The sub-group identify areas of good practice and exchange

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experiences on recent frauds within their authorities, as well as having relevant external speakers attending meetings to discuss new and emerging fraud risks.

- 3.30 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
- 3.31 The NFA issued a fraud awareness CD that is available on the Learning Zone webpage.
- 3.32 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 system controls sufficient to prevent these frauds happening in Swindon?' A copy of the latest bulletin is available in the Members Room and is circulated at Audit Committee meetings.
- 3.33 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.

Corporate Counter Fraud team

- 3.34 The section was successful in bidding for Counter Fraud money from the Department for Communities and Local Government. This funding runs to the end of March 2016 and has been used to set up a Corporate Counter Fraud team. A Corporate Fraud Investigator and a Fraud Investigation Support Officer have been appointed.
- 3.35 The team have already developed a close working relationship with Housing and are now included in the vetting process for right to buy applicants. This has already had positive results. Further proactive fraud work will be developed during the year and a report on findings from the teams work will be brought to subsequent committee meetings.

Investigations

- 3.36 Internal Audit carries out a number of investigations each year. Investigations can be as a result of audit work, referrals from management or via the Whistleblowing process. All Whistleblowing cases should be referred to the Director of Law and Democratic Services who will, in liaison with the Chair of Standards (if required) and the Head of Internal Audit agree who is the most appropriate to investigate.
- 3.37 The following table provides a brief summary of the levels of investigations undertaken by Internal Audit over the past five years:

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	2010/11	2011/12	2012/13	2013/14	2014/15
Whistleblowing cases	4	5	6	9	7
Other Investigations	9	11	13	8	18
Total	13	16	19	17	25

- 3.38 The outcomes of all Whistleblowing cases are reported to the Standards Committee.
- 3.39 *Data Matching:* Internal Audit has started to develop the matching of data from various Council databases to try and identify fraud and error. To date over £61,000 of monies due to the Council has been identified by Internal Audit. This includes:
- A review of payments made through the Oracle system has identified £56,325 worth of duplicate payments that are currently being pursued for recovery. Internal Audit's own data matching has proved more effective than the NFI data matching and is something that we will look to undertake quarterly.
 - A match between Council Tax exemptions (in probate) to the Electoral register found an additional debit of £5,154.14 that has been billed.
 - A match between Council Tax single person discount and residents parking has produced twenty hits that are currently being investigated.
- 3.40 The section is also looking to increase their current data matching to identify further potential fraud or error.

4. Alternative Options

- 4.1 Not Applicable

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 2015. The Internal Audit service also provides assurance to the Director of

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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 Appendix 1 – Self-assessment against the Audit Commission's *Fighting Fraud Checklist for Governance*