

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Head of Corporate Organisation	Report Number: JAC47
To: Joint Audit and Standards Committee	Date of meeting: 16 March 2015

MANAGING THE RISK OF FRAUD AND CORRUPTION – ANNUAL REPORT FOR 2014/15

1. Purpose of Report

1.1 This report explains the current arrangements in place across both Councils to ensure there is a pro-active corporate approach to preventing fraud and corruption and creating a culture where fraud and corruption will not be tolerated. It also provides details of proactive work undertaken by Internal Audit to deter, prevent and detect fraud and corruption.

2. Recommendations

2.1 That the progress made in ensuring there are effective arrangements and measures in place across both Councils to minimise the risk of fraud and corruption be noted.

The Committee is able to resolve this matter.

3. Financial Implications

3.1 Whilst there are no direct implications arising from this report there are potential resource implications concerning anti-fraud and corruption issues. Any implications arising from the need to introduce additional controls and mitigations will be addressed with management. The emphasis at all times will be to improve controls without increasing costs or jeopardising efficient and compliant service delivery.

4. Risk Management

4.1 The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If robust anti-fraud and corruption arrangements are not in place this could affect the achievement of the Councils' strategic aims and priorities, key projects, the delivery of services and its reputation.	Unlikely	Bad	The risk of fraud and corruption in relation to each Council's activities is taken into consideration both as part of each Council's approach to risk management and also in the development of the annual Internal Audit Plan. In practice, each Council's mitigating controls include clear policies and procedures available to all staff and Members; Internal Audit who investigate potential areas of fraud and corruption; the bi-annual participation in the National Fraud Initiative; and a sound internal control environment – as demonstrated by internal and external audit opinions and the Annual Governance Statement.

5. Consultations

5.1 None

6. Equality Analysis

6.1 There are no equality implications

7. Shared Service / Partnership Implications

7.1 Staff are working towards aligning relevant policies and procedures to provide a clear corporate framework to counter fraudulent and corrupt activity (see also paragraphs 8.15 to 8.17).

8. Key Information

8.1 This report shows those responsible for governance how both Councils are looking to fight fraud more effectively. It brings together in one document a summary of the outcomes of our work to deter, prevent and detect fraud and corruption over the last 12 months.

8.2 Although both Councils have traditionally encountered low levels of fraud and corruption, the risk of such losses both internally and externally is fully recognised as part of each Council's operations that need to be managed pro-actively and effectively.

8.3 Each Council's expectation of propriety and accountability is that Members and staff, at all levels, will lead by example in ensuring adherence to legal requirements, policies, procedures and practices.

8.4 Each Council also expects that individuals and organisations (e.g. suppliers, contractors, partners and service providers) with whom they come into contact will act towards each Council with integrity and without thought or actions involving fraud and corruption.

Key issues and drivers

8.5 Radical changes are underway as to how local services are to be delivered. The change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed.

8.6 These changes are happening against a backdrop of reduced funding in which the general fraud risk tends to increase.

The Risk of Fraud

8.7 The corporate fraud risk is included on the Councils' Significant Business Risk Register; "Failure to have, or implement, the appropriate controls to prevent, detect, defer or respond to fraud with a result of financial loss, criticism from the External Auditor, and damage to reputation".

8.8 In practice, each Council's mitigating controls include clear policies and procedures available to all staff; and a sound internal control environment as demonstrated by internal and external audit opinions and the most recently published Annual Governance Statement.

8.9 However, whilst there are mitigating controls in place to manage the risk of fraud, this can never be expunged completely. Each Council's Financial Regulations give responsibility for the development and maintenance of an anti-fraud and corruption and whistleblowing policy to the Corporate Manager for Internal Audit. This policy has been updated and renamed the "Prevention of Financial Crime Policy and is being presented to this Committee today for approval – see also paragraphs 8.15 to 8.17.

Raising awareness and openness

8.10 Following an enquiry from a Member of this Committee advice and guidance has been produced and issued to all Members on how they can make a positive contribution towards improving the fight against benefit and housing tenancy fraud.

8.11 The Suffolk Tenancy Fraud Forum, which was launched back in October 2013, continues to meet and is well attended by various housing partners across the county. Areas for discussion include; registration and verification processes applied; joint training opportunities; joint advertising/marketing campaign to raise fraud awareness; and case law/legal updates.

8.12 Further work continues on raising fraud awareness across both Councils and includes:

- Alerting relevant staff of National Fraud Bulletins and ensuring that associated internal controls are robust;
- Timely reminders are sent to Members and staff of their responsibilities within their respective Codes of Conduct, regarding declaration of interests, gifts and hospitalities; and
- Completion of national fraud and corruption surveys.

8.13 Both Councils are committed to being open and transparent. The published Communities and Local Government (CLG) Code of Recommended Practice for Local Authorities on Data Transparency has set out data publishing requirements on Local Authorities. This now includes publishing information on each Council's counter fraud work.

Protecting the Public Purse

8.14 Through their respective Audit Committees Members were provided with an update of the key matters arising from the Audit Commission's report "Protecting the Public Purse" published November 2013. This included an assessment of the Council against the "Fighting Fraud Checklist for Governance". The checklist shows that assurance can be taken that each Council has governance and counter-fraud arrangements in place that are fit for purpose and working as intended.

Policies and Procedures

8.15 In a separate paper being presented today Members of this Committee are being asked to approve the combined revised Prevention of Financial Crime Policy (previously called the Anti-Fraud and Corruption and Whistleblowing Policy).

8.16 By bringing a variety of our existing fraud and bribery policies together in one document it has been possible to reduce the volume by removing duplications of reference, roles and responsibilities, and of actions.

- 8.17 The outcome is a document that is more succinct, easier to reference and better imparts the messages of financial prudence and probity than previously experienced.

Audit Planning

- 8.18 Fraud and corruption risks are identified as part of the annual planning process and contribute to the overall formation of audit coverage.
- 8.19 Whilst it is not a primary role of an internal audit function to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. This is at a level deemed proportionate to the identified risk of fraud within the Councils.
- 8.20 A continual allowance is made within the annual Audit Plan for internal audit to undertake irregularity investigations, National Fraud Initiative (NFI) investigations and proactive anti-fraud and corruption work.

Counter Fraud Fund

- 8.21 The Department for Communities and Local Government (DCLG) invited local authorities to submit funding proposals that would result in real financial savings through effective counter fraud measures. Babergh and Mid Suffolk, along with other public and private sector partners, jointly submitted a bid under the title heading 'East Suffolk Corporate Fraud Partnership Bid' with Ipswich Borough Council taking the lead.
- 8.22 Unfortunately the bid was unsuccessful. However, through the Suffolk Working Audit Partnership (SWAPs) and other partners we will continue to look for opportunities to work together in tackling fraud, encompassing detection, prevention and deterrence.

National Fraud Initiative (NFI)

- 8.23 Councils are required to participate in the biennial NFI, the Audit Commission led exercise involving data matching of records nationally from public service databases. Internal Audit take a leading role in co-ordinating this exercise across both Councils and with the Shared Revenues Partnership (SRP) working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.
- 8.24 The data requirements and data specifications for the 2014/15 NFI exercise have been completed and successfully uploaded using the NFI's secure electronic upload facility.
- 8.25 The data matches released in February 2015 will be managed on a risk based approach by Internal Audit and the system users.

Benefit Fraud

- 8.26 The way Housing Benefit is investigated is changing for our Councils on 1 May 2015. Currently Housing Benefit is investigated by the Corporate Fraud Service at Ipswich Borough Council which provides a fraud service to Babergh and Mid Suffolk via a contract with the Shared Revenues Partnership.
- 8.27 Internal communication on the new Benefit Fraud referral process has been issued to staff and Members through the Joint Newsletter in February 2015. External communication will follow shortly.

- 8.28 Benefit and tax fraud and error is estimated to cost £5.3 billion per year (published fraud and error statistics). Benefit fraud investigations are currently carried out by the Department of Works and Pensions (DWP) Fraud Investigation Service and by Local Authorities; Tax Credit fraud is currently investigated by Her Majesty's Revenue and Customs (HMRC). However, HMRC has few investigators employed to look into Tax Credits, as much of their resource is deployed for higher value tax investigations. Currently the totality of an offence committed by DWP, local authorities and HMRC, as each service conducts their own investigation. These arrangements are now considered inefficient and open to charges of unfairness.
- 8.29 In response to the highlighted disparities outlined above, Government proposed the creation of a single integrated fraud investigation service with statutory powers to investigate and sanction all benefit and tax credit offences, which will combine relevant resources across Local Authorities, HMRC, and DWP. This service commenced in October 2014 and all 360+ Councils are affected and the programme of change will continue into 2016. The aim is to improve efficiency, ensure all offences are taken into account and increase the number of investigations and sanctions.
- 8.30 Currently the DWP contributes financial sums to Councils to facilitate fraud prevention and detection directly linked with Housing Benefit fraud. This will cease/diminish as from 1 May 2015. Existing Local Authority Fraud Investigators who largely work on Housing Benefit fraud activity based at Ipswich Borough Council will transfer to the DWP, within a new team called the 'Single Fraud Investigation Service' on 1 May 2015, along with the work. There remains residual Housing Benefit fraud work which Ipswich Borough Council will continue to cover, i.e. a 'Single Point of Contact' must exist. This is a role which will search, sift, transfer, make court statements etc. in relation to Housing Benefit fraud activity since the Council is still the administrator of Housing Benefits, and the DWP do not have direct access to our systems (or those of any other Council at the present time). This role will be within the Shared Revenues Partnership.
- 8.31 All other Corporate Fraud responsibilities remain the responsibility of each Council. The Head of Internal Audit at Ipswich Borough Council manages specialist Corporate Fraud Services and has offered these services to Babergh and Mid Suffolk should they be required in the future.

Reported corporate fraud cases during 2014/15

- 8.32 Internal Audit has been made aware of a potential fraud that has taken place affecting Babergh's Supported Housing Team involving what appears to be a bogus private landlord. Internal Audit has referred the matter to the Police for investigation, which is currently ongoing. As a result Internal Audit has made a number of recommendations to further strengthen the procedures over the use of private landlords.
- 8.33 Housing Tenancy Fraud cases – Since April 2014 Community Housing Officers have investigated eight cases of suspected housing related frauds. These have been as a result of anonymous complaints/whistle blowing, intelligence gathered by Community Housing Officers, and /or as part of matters that initially involved work undertaken by Tenant Services for example; welfare checks, missed gas servicing, empty or unkept properties.

8.34 The results of the investigations are summarised below:

- Five cases involved succession rights involving tenancies. One is still ongoing, two succession claims were prevented from succeeding, and with a further two cases resulting in significant overpayments which are now being recovered;
- One property was recovered as a result of non-occupation as the principal home; and
- A further two cases are still ongoing and being investigated which involve lodgers and properties owned elsewhere.

8.35 In addition to the creation of the Suffolk Tenancy Fraud Forum (refer to paragraph 8.11) the following activities will be developed to identify and prevent housing tenancy fraud in the future:

- Draft Tenancy Fraud Policy;
- Amendments to the current tenancy agreement to provide greater freedom to tackle housing fraud proactively;
- Consideration being made to an agreement with Call Credit to carry out a sample audit of our tenancies to establish potential levels of fraudulent activity; and
- Raising greater staff awareness through relevant training.

Looking ahead

8.36 The Local Audit and Accountability Bill contains provision for the closedown of the Audit Commission in March 2015.

8.37 The government has announced that the NFI data matching exercises will be transferred to the Cabinet Office on 1 April 2015. This will allow the NFI to continue to provide two-yearly data matching activities.

8.38 Some areas where a focus can be expected for 2015/16 are as follows:

- Continue ongoing NFI exercise;
- Supporting both Councils to improve levels of awareness of fraud risks amongst staff;
- Work with neighbouring Councils to share knowledge and expertise on anti-fraud and corruption measures.
- Compliance review against CIPFA's new Code of practice on 'Managing the Risk of Fraud and Corruption', which builds on CIPFA's previous guidance the 'Red Book'. Results then showed that both Councils were adopting good recommended practice. To help implement the new Code CIPFA has produced a set of guidance notes.

8.39 As we face reduced funding and new national counter-fraud arrangements (refer to paragraph 8.26 to 8.30) both Councils need to assess fraud risks effectively to target resources where they will produce most benefit. Namely:

- Maintain capacity to investigate non-benefit fraud following the introduction of the Single Fraud and Investigation Service;
- Be alert and reactive to national fraud concerns; and
- Ensure we have the right skills to investigate all types of fraud.

Conclusions

8.40 Currently both Councils have sound anti-fraud and corruption arrangements in place. No further action is required, commensurate with the risks, but the Councils must nevertheless remain vigilant.

9. Appendices

Title	Location
(a) None	

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