

**Audit Committee – 30 January 2012**

**Protecting the Public Purse – Fraud Update**

**Summary of report:**

This report presents the council's responses to the Audit Commission publication 'Protecting the Public Purse' November 2011.

**Background papers:**

The Audit Commission's Protecting the Public Purse, November 2011, publication. Completed publication checklist and survey questionnaire and responses received from directorate officers.

**Recommendation:**

1. To note the contents of the report.



**Rebecca Neill**  
**Head of Internal Audit**  
**17 January 2012**

**Background:**

The Audit Commission's produce their 'Protecting the Public Purse' publication annually. The purpose of the publication is to share information to enable council's to develop focused plans and strategies for tackling fraud; and target resources on areas where prevention and detection can have the most impact.

'Protecting the Public Purse' includes the results of the Audit Commission's annual fraud survey, which is the sole source of evidence about the levels of detected fraud in local government and related bodies. The survey results and 'Protecting the Public Purse' publications focus on local government and can help councils and other local public bodies by providing the data and information they need to tackle fraud effectively.

The reports are designed to help councillors and senior officers responsible for governance in councils and local public bodies, and particularly members of audit committees. The reports are also relevant to the work of government departments, other national organisations and counter-fraud specialists.

**Resource and legal considerations:**

It is important that effective systems of internal control are in place for the prevention of fraud and corruption. Where fraud or corruption is detected, robust action will always be taken against the perpetrators. There is provision within the approved internal audit plan to undertake irregularity work reported to the service.

**Governance Issues / Citizen impact:**

Internal audit and the benefit investigation team work is intended to ensure that effective systems of internal control are in place, including those in relation to the introduction of new, or revisions to existing, systems/processes and for the prompt and vigorous investigation of potential irregularities reported to the services. This demonstrates the serious manner in which the council takes its responsibilities in ensuring effective control arrangements are in place and in dealing with reported allegations of fraud and corruption. This also offers protection to the council and its officers and provides an assurance to stakeholders and citizens regarding the security of the council's operations.

**Performance and risk management issues:**

Many audit committee activities are an important and integral part of the council's performance management and corporate governance frameworks. The internal audit strategic plan is risk assessed to ensure that areas most at risk are examined as a priority and includes an allocation of time to undertake unplanned irregularity and consultancy work.

Irregularities may be noted during regularity audit reviews or be reported from a number of sources, including council managers, employees, occasionally via the Confidential Reporting Policy (whistle blowing), and externally. Irrespective of how the allegations are reported, however, each will be subject to investigation. Some result in little investigatory time having to be spent, others can take much longer. Relevant action, where found to be appropriate, will always be taken, i.e. disciplinary, court proceedings, police referral and recovery of losses.

**Equality Implications:**

None arising from this report.

**Consultation:**

The proposed annual audit work plan is discussed with relevant senior managers before the start of the financial year and includes an allocation for unplanned irregularity/consultancy work.

# Protecting the Public Purse 2011

## Summary

A summary of the 'Protecting the Public Purse 2011' publication is as follows:

Fraud is a significant problem. It affects everyone in the UK. In 2011, the National Fraud Authority (NFA) estimated that:

- each year public, private and third sector organisations, as well as individuals, lose over £38 billion to fraud;
- fraud costs every adult in the country £765 a year; and
- fraud against public sector organisations costs £21.2 billion, with fraud against councils costing more than £2 billion a year.

The Audit Commission's 2010/11 survey of fraud against councils and related bodies shows that:

- councils detected more than £185 million worth of fraud, involving 121,000 cases;
- the total value of detected fraud losses for 2010/11 increased by 37 per cent compared with 2009/10, with the number of fraud cases also increasing; and
- councils recovered nearly 1,800 homes from tenancy fraudsters. These homes had a total replacement value of over £266 million.

In 'Protecting the Public Purse 2011', the Audit Commission highlight some emerging fraud issues and review councils' progress in tackling the significant risks described in their 2009 and 2010 reports. They show that:

- housing tenancy fraud could cost the public purse £900 million each year (NFA estimate);
- councils detected more than £22 million of false claims for student and single person council tax discounts;
- housing and council tax benefits fraud losses accounted for more than half of the total fraud losses detected by councils;
- counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils; and
- councils detected 145 cases of procurement fraud amounting to £14.6 million.

Councils are having to make reductions in spending. They can make significant savings by reducing fraud. This can help protect frontline jobs and services.

## Fraud & Corruption Survey 2010/11

The November 2011 Protecting the Public Purse publication covered data for authorities in 2010/11.

Walsall Council completed the survey on line by the due date following receipt of the required information from relevant officers. The following was submitted detailing data for the financial year ended 31 March 2011:

- 208 housing and council tax benefit fraud cases identified totalling £820,047.
- 415 cases of council tax single person discount (SPD) fraud totalling £213,890.

- 3 case of procurement fraud totalling £53,326 including 2 cases involving employees totalling £37,250.
- 4 cases of payroll and employee contract fulfilment fraud totalling £635.
- 2 cases of abuse of position for financial gain totalling £2,391.
- no cases of recruitment fraud.
- In 20 cases the fraud value amounted to over £10,000.
- 36 people were prosecuted for housing and council tax benefit fraud, none of which were employees.
- 54 housing and council tax benefit prosecutions resulted in a guilty outcome, none of which were employees.
- There was 1 general fraud prosecution but no guilty outcomes in the reporting period.
- There was 1 whistle blowing disclosure made during the period.

Within the November 2011 Protecting the Public Purse publication is 'a checklist for those responsible for governance'. This has been completed and is detailed at **Appendix 1**.

**Author:**

Rebecca Neill

Head of Internal Audit

☎ 01922 652831

✉ [neillr@walsall.gov.uk](mailto:neillr@walsall.gov.uk)

## Appendix 1 - Checklist for those responsible for governance

	Yes	No	2010/11 Action/Evidence
1. Do we have a zero tolerance policy towards fraud?	✓		Recently refreshed anti fraud and corruption policy and strategy, incorporating the new Bribery Act.  Confidential reporting policy (whistle blowing).
2. Do we have the right approach and effective counter fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?	✓		Internal Audit's counter fraud strategy 2011/12. Benefit Service / Team & Operational Plan 2011/12 / risk assessments / quality checks / Memorandum of Understanding and Service Level Agreement with the DWP / Prosecution and Sanction Policy / Benefits Anti Fraud Policy.  Other relevant policies: <ul style="list-style-type: none"> <li>• anti fraud &amp; corruption policy &amp; strategy;</li> <li>• code of conduct for employees;</li> <li>• members' code of conduct;</li> <li>• confidential reporting policy (whistle blowing); and</li> <li>• financial and contract rules.</li> </ul>
3. Do we have dedicated counter-fraud staff?	✓		There is an allocation of time within the approved internal audit plan for the implementation of the counter fraud strategy.  Housing and council tax benefit fraud is investigated by a dedicated benefit services investigation team /data matching and interventions team.
4. Do counter fraud staff review all the work of our organisation?	✓		As 3.

<p>5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?</p>	<p>✓</p>	<p>Fraud risk is a risk on the CMT risk register, which is subject to regular review.</p> <p>Audit committee receive 6 monthly monitoring reports from internal audit detailing fraud work undertaken and outcomes.</p> <p>Benefit results are reported to the Department for Works &amp; Pensions via the HBRF (Housing Benefits Recovery Fraud) Return; and quarterly / annual statistics are made available for review and analysis. Benchmarking is undertaken via participation in monthly data matching through Housing Benefits Matching Service.</p>
<p>6. Have we assessed our management of counter-fraud work against good practice?</p>	<p>✓</p>	<p>Internal Audit's counter fraud strategy has been assessed against other authority approaches.</p> <p>Regular review of anti fraud and corruption policy and strategy, to ensure it includes best practice and is updated for changing legislation e.g. Bribery Act 2011.</p> <p>Internal audit CIPFA benchmarking.</p> <p>Internal audit contribute to the West Midlands Fraud Group sharing best practice with other West Midlands Internal Audit representatives.</p> <p>Regular benefits benchmarking with CIPFA and West Midlands Fraud Investigation (WMFIG). Benefits undertake joint working with the Department for Works &amp; Pensions, Police, NHS, other local authorities and other departments within the council.</p>

<p>7. Do we raise awareness of fraud risks with:</p> <ul style="list-style-type: none"> <li>• new staff (including agency staff)?</li> <li>• existing staff?</li> <li>• elected members?</li> <li>• our contractors?</li> </ul>	✓	<p>As part of the annual programme of risk awareness training, fraud and corruption is included as one of the 'building blocks' of key risks to consider when undertaking a risk assessment and indentifying risks.</p> <p>The induction pack for new employees includes the code of conduct which includes the confidential reporting policy (whistle blowing). All staff, including agency staff, must familiarise themselves with the council's policies and procedures, including those relating to anti fraud and corruption, as part of their work.</p> <p>The newly refreshed anti fraud and corruption policy and strategy was communicated to all staff via the Chief Executive's Core Brief. The internal audit intranet page includes the anti fraud and corruption policy and strategy, anti fraud toolkit and links to associated policies and procedures such as the confidential reporting policy.</p> <p>Audit committee receive 6 monthly monitoring reports from internal audit detailing fraud work undertaken and outcomes.</p> <p>Members of the public, including contractors can access the whistle blowing policy and online notification form via the internet.</p> <p>Fraud alerts are sent out by the internal audit service following any new / emerging fraud risks identified.</p> <p>Regular fraud awareness training for revenues and benefits officers and Registered Social Landlords take place. An online reporting facility exists for benefit fraud via the benefits service web page.</p> <p>Audit committee have had a briefing as part of induction training. Standards Committee received a report regarding the implications of the Bribery Act, including the council's anti fraud and corruption arrangements in July 2011. A copy of the report was circulated to all elected members for information.</p>
---	---	--

<p>8. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?</p>	<p>✓</p>	<p>Internal audit have representatives on the West Midlands Fraud Group and West Midlands Contract Group. Fraud is an agenda item on the West Midlands Heads of Audit Group Internal audit participate in CIPFA benchmarking. Auditors attend annual CIPFA audit training seminars (fraud days).</p> <p>The benefits service has joint working partnerships with Job Centre Plus and DWP. The benefit service participate in data-matching exercise via the Housing Benefit Matching Service on a monthly basis.</p> <p>The Council is a participant in the National Fraud Initiative data matching exercise.</p>
<p>9. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?</p>	<p>✓</p>	<p>As 8.</p>
<p>10. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we take action?</p>	<p>✓</p>	<p>Audits receiving no or limited assurance are routinely reported to Audit Committee for the Executive Director and their accountable managers to provide assurances to members that issues identified have been addressed. All such audit reports are subject to early follow up.</p> <p>Adequacy of established controls is a factor considered in internal audit's risk assessment which produces the annual audit plan. Areas where controls were previously found to be weak are higher risk and therefore more likely to be subject to audit attention.</p> <p>Risk assessed benefit claim checks. Benefit quality checks. Monitoring benefit payments. Process reviews.</p>

11. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on the matches investigated?	✓		Full participation covering all requested services such as benefits, payroll and creditors. Action plan based on exceptions promptly progressed.
12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	✓		<p>Incomes received are processed through our banking hall and all staff are aware of the need to report any large receipts to their senior officer. The level is currently set at 15k euros (£14k) for any one or combined transactions for an individual.</p> <p>Policy update to be arranged.</p> <p>Treasury management policy and training. In addition, any cash payment in excess of £1000 is investigated for any anomalies and reported as appropriate.</p>
13. Do we have effective whistle blowing arrangements?	✓		The council's confidential reporting policy (whistle blowing) is available on the intranet and internet with an on line reporting facility, through which concerns may be raised.
14. Do we have effective fidelity guarantee insurance arrangements?	✓		The council at present has cover for 38 designated officers to a value of £12million and all other officers to a value of £5million. This will be reviewed and if it is considered appropriate new arrangements will be in place as of 1 April 2012.

<p>15. Have we reassessed our fraud risks since the change in the financial climate?</p>	<p>✓</p>	<p>The audit universe is risk assessed annually and any new or emerging fraud risks are considered. Internal audit's standard audit programme includes an anti fraud and corruption checklist. This is updated as and when new risks are identified.</p> <p>Fraud risk is a risk on the CMT risk register which is subject to regular review.</p> <p>In progress within benefits.</p>
<p>16. Have we amended our counter-fraud action plan as a result?</p>	<p>✓</p>	<p>As 15.</p>

17. Have we reallocated staff as a result?	✓		<p>As 15. Audit resources are allocated according to risk.</p> <p>Benefits realignment of the service will review resources in this area. Appointed an apprentice to assist.</p>
18. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	✓		<p>Walsall transferred the ownership of its stock to two Housing Associations in 2003. The council continue to own and manage temporary accommodation for those homeless or at risk of homelessness in the borough.</p> <p>The council has a nomination agreement in place with all the Housing Associations in the borough and that is used as a mechanism to monitor who is accessing social housing in the borough. This is also supplemented by analysis of the continuous recording (CORE) returns submitted centrally by each housing association. The council work with all Housing Associations to ensure their allocation policies reflect the council re-housing priorities.</p>
19. Do we ensure that social housing is occupied by those to whom it is allocated?	✓		<p>Walsall has temporary accommodation only. All residents are asked at sign up to provide proof of identity. The council is working with the Housing Associations in the borough to look at methods of ensuring the property is occupied by the person to whom it is allocated.</p>

20. Are we satisfied that procurement controls are working as intended?	✓	<p>Procurement controls are reviewed via the risk assessed audit plan in the annual accounts payable audit; the strategic procurement audit and commissioning audits.</p> <p>The new purchase card procedure in place, prompts users' agreement to comply at each log on.</p>
21. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	✓	<p>Introduced a new series of Service Instructions to ensure probity can be demonstrated around the letting of construction contracts.</p> <p>Piloting a new project management system to improve delivery of construction projects including financial control.</p> <p>Corresponding with legal services since the Office for Fair Trading (OFT) advice is that procuring bodies should not automatically exclude contractors from tendering but also state it is for individual procurers to make their own decision having taken legal advice. Legal advice on this issue being sought, but any action regarding this or additional monitoring to identify any future activities of this nature should be coordinated across a larger number of employers e.g. West Midlands LA's; this may be something that needs discussing by senior officers including property services and internal audit.</p>

<p>22. Are we satisfied that our recruitment procedures achieve the following:</p> <ul style="list-style-type: none"> <li>• Do they prevent us employing people working under false identities?</li> <li>• Do they confirm employment references effectively?</li> <li>• Do they ensure applicants are eligible to work in the UK? and</li> <li>• Do they require agencies supplying us with staff to undertake the checks that we require?</li> </ul>	<p>✓</p>	<p>National fraud initiative data matching, payroll internal audit review and safer recruitment panel</p> <p>False IDs:</p> <ul style="list-style-type: none"> <li>• In conjunction with Criminal Records Bureau (CRB) clearances they are asked to provide 5 separate forms of ID.</li> <li>• P45's requested.</li> <li>• Ofsted requirements for working in Residential and Family Placements require photographs.</li> <li>• Managers are required to check qualifications at interview.</li> <li>• Teacher and social worker qualifications are checked with the General Social Care Council (GSCC) and General Teaching Council (GTC) data bases. Monitoring Data also held on Trent.</li> <li>• Recruitment bulletin 17 'False Qualifications' July 2005.</li> </ul> <p>References:</p> <ul style="list-style-type: none"> <li>• Referees contacted direct.</li> <li>• Referees should include current employer.</li> <li>• Ofsted requirements for working in Residential and Family Placements requires verbal references as well as written references.</li> <li>• Ofsted requirements for working in Residential and Family Placements requires gaps in employment to be investigated.</li> <li>• Recruitment bulletin 9 'References' May 2004.</li> </ul> <p>Concealing criminal convictions:</p> <ul style="list-style-type: none"> <li>• Posts are designated as requiring CRB clearance if access to Children or vulnerable adults.</li> <li>• CCTV operators are regulated under National scheme.</li> <li>• Safer Recruitment Panel established to make decisions on criminal convictions.</li> <li>• Three year checking policy in existence.</li> </ul> <p>Eligibility to work:</p> <ul style="list-style-type: none"> <li>• Documents checked in accordance with current legislation.</li> <li>• Includes passport, birth certificate.</li> <li>• Recruitment bulletin 25 'Work Permits' July 2006.</li> <li>• Recruitment bulletin 31 'Prevention of Illegal Working' 5 2008.</li> <li>• Recruitment bulletin 38 'Overseas workers' 5 2008.</li> <li>• 'Compulsory ID's for foreign nationals' Nov 2008.</li> <li>• Recruitment bulletin " Safer Recruitment".</li> <li>• Successful applicant recruitment – short listing and interview.</li> </ul>
--	----------	--

		<ul style="list-style-type: none"> <li>• ID verification form – interview stage</li> <li>• CRB ID verification form – interview stage</li> <li>• Job application form – NI No; permission to work in UK; Fair processing notice.</li> </ul>
<p>23. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding arrangements proportionate to risk and in line with recommended good practice?</p>	<p>✓</p>	<p>Regarding the roll out of personal budgets from February 2011 (which include direct payments), and thereafter individual budgets, the social care and inclusion management team are committed to continue to use proportionate risk management and audit processes, to strike the right balance between the protection of public money and the personalisation policy which gives service users much greater choice and control over how they arrange and receive the care they need. Similarly, a risk enablement policy has recently been approved, which balances the safeguarding of vulnerable adults from abuse (including financial abuse) and the freedoms and advantages that personal budgets bring. In all this they continue to make full use of regional and national networks, best practice and pilot sites, and receive and act on the emerging case law.</p>

<p>24. Have we updated our whistleblowing arrangements for both staff and citizens so that they may raise concerns about the financial abuse of personal budgets?</p>			<p>Social Care &amp; Inclusions Executive Management Team considered a report on 3 January 2012, of proposals to accommodate this new item on the checklist.</p> <p>The following has been approved:</p> <ul style="list-style-type: none"> <li>• Directorate staff be reminded about the internal audit on-line form for notifying suspected fraud or irregularity, with a statement that this is to be used if personal budget fraud is suspected or detected, in conjunction with informing one's line manager. This reminder is to be added to staff guidance on the intranet.</li> <li>• Advice on safeguarding on the council's website (and on paper materials when next reprinted) to include a specific reference to personal budget fraud as a notifiable category of adult abuse.</li> <li>• The list of examples of possible types of complaint under the adult social care statutory procedure on the council's website (and on paper materials when next reprinted) to include an appropriately worded sentence relating to personal budget fraud, with an assurance on confidentiality.</li> <li>• The relevant section of the personalisation and self directed support materials on the council's website (and on paper materials when next reprinted) to include an appropriately worded statement about personal budget fraud and what to do if it is suspected, with an assurance on confidentiality</li> </ul>
---	--	--	---

<p>25. Are we effectively controlling the discounts and allowances we give to council taxpayers?</p>	<p>✓</p>	<p>A combination of checks and balances exist at the point of granting a discount or exemption that involves, where appropriate, a signed application form, proof of circumstances, 3<sup>rd</sup> party checks such as housing benefits records, electoral registration. A programme of reviews is in place based on the level of risk for the different types of reductions in liability.</p> <p>External searches such as Experian are used and mail shots issued to invite individuals to reconfirm their circumstances.</p> <p>A recent example of good practice was the exercise to review all single person discounts, which involved a risk assessment using Experian and a mail shot to those identified as a high risk. Over 2,800 cases subsequently cancelled.</p> <p>Currently participating in the Audit Commission's data matching exercise – council tax and electoral registration records. Following on from the success of the 2008 single person discount review, the exercise has been repeated with all single person discounts being risk assessed via Experian in 2010 and a mail shot has been sent to those identified as a high risk.</p> <p>Currently participating in the Audit Commission's data matching exercise – council tax and electoral registration records that have identified those accounts with individuals reaching the age of 18.</p>
<p>26. In tackling housing and council tax benefit fraud do we make full use of the following:</p> <ul style="list-style-type: none"> <li>• National Fraud Initiative</li> <li>• Department for Work and Pensions Housing Benefit Matching Service;</li> <li>• Internal data matching; and</li> <li>• Private sector data matching?</li> </ul>	<p>✓</p>	<p>In tackling housing and council tax benefit fraud, the council participates in:</p> <ul style="list-style-type: none"> <li>• NFI</li> <li>• DWP joint working</li> <li>• Data-matching (Housing Benefit Matching Service)</li> <li>• Credit Reference Agencies (private sector data-matching)</li> </ul>

17.1.2012