

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	11 April 2013
REPORT TITLE	Checklist from the Audit Commission Document: Protecting The Public Purse 2012 (Fighting Fraud against Local Government)
Report of	Chief Internal Auditor, and S.151 Officer
WARDS AFFECTED	All

Summary of report:

The purpose of this report is to inform members of the position of the Council against the checklist included in the Audit Commission publication 'Protecting the Public Purse 2012 (Fighting Fraud against Local Government)' (November 2012).

This report links to the previous versions of the checklist presented to members and the National Fraud Authority's strategy 'Fighting Fraud Locally'; and Audit Commission publication 'The National Fraud Initiative (Council members' briefing)' (May 2012) presented to the Audit Committee at the meeting of 27th September 2012.

Financial implications:

None, within existing budgets.

RECOMMENDATIONS:

That the Audit Committee considers the position of the Council against the checklist included in the Audit Commission publication 'Protecting the Public Purse 2012 (Fighting Fraud against Local Government) (November 2012).

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1. BACKGROUND

1.1 This is the fourth year that the Audit Commission has published 'Protecting the Public Purse – Local Government Fighting Fraud' (September 2009, October 2010, November 2011, November 2012).

1.2 The original report introduction said:

'Every pound lost through fraud affects citizens by increasing taxation and threatening essential service.....There has been a growing recognition of the damaging impact that fraud has on the UK economy and on citizens. This recognition has been matched by some important initiatives to combat fraud. Fighting fraud is high on the agendas of the government and most private and public sector organisations. The newly formed National Fraud Authority is committed to measuring and analysing the incidence and impact of fraud across the UK'.

2. UPDATE FOR 2012

2.1 Protecting the Public Purse 2012 focuses on the continuing progress by local government to protect tax payers by fighting fraud and is available at. <http://www.audit-commission.gov.uk/counter-fraud/protecting-the-public-purse-reports/>

It states that the local government bodies are targeting their investigative resources more efficiently and effectively.

2.2 Among the report's recommendations it is advised that Councils use a checklist to ensure that they have sound governance and counter-fraud arrangements that are working as intended.

2.3 The Council's Chief Internal Auditor presented the completed checklist to the April 2010, 2011 and 2012 Audit Committee meetings which reflected the Council's position at these times against each of the questions.

2.4 The Audit Commission's report included recommendations that Councils should:

- Review their counter-fraud strategies in the context of the *NFA's Fighting Fraud Locally*;
- Actively pursue the potential frauds National Fraud Initiative (NFI) data matches are followed up effectively, including those targeting council tax discount abuse (next data release due in February 2012);
- Maintain robust staff recruitment and internal controls to guard against internal fraud;
- Maintain a capability to investigate fraud that is not related to housing benefit;
- Ensure that they have effective and proportionate defences against emerging fraud risks;
- Share investigative resources with other bodies; and
- Access the potential benefits and savings of greater joint working with other councils.

3. LEGAL IMPLICATIONS

3.1 Statutory powers: Accounts and Audit Regulations 2003, 2006, 2009 etc.

4. FINANCIAL IMPLICATIONS

4.1 None, within existing budgets.

5. RISK MANAGEMENT

5.1 The risk management implications follow these considerations:

Corporate priorities engaged:	All
Statutory powers:	Accounts and Audit Regulations 2003, 2006, 2009 etc
Considerations of equality and human rights:	No specific equality and human rights issues arising from this report.
Biodiversity considerations:	No specific biodiversity issues arising from this report.
Sustainability considerations:	No specific sustainability issues arising from this report.
Crime and disorder implications:	No specific crime and disorder issues arising from this report.
Background papers:	<ul style="list-style-type: none">• Audit Commission report: Protecting The Public Purse 2012 (Fighting Fraud against Local Government);• National Fraud Authority's document <i>Fighting Fraud Locally</i> considered by the September 2012 Audit Committee;• The Council's Anti Fraud, Corruption & Bribery Policy and Strategy 2011;• Benefit Fraud Prosecution and Sanction Policy; and• Confidential Reporting (Whistle Blowing) Policy
Appendices attached:	Appendix A: Completed checklist from Protecting The Public Purse 2012 (Fighting Fraud against Local Government)

STRATEGIC RISKS TEMPLATE

No	Opportunity Title	Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Demonstrating zero tolerance of fraud.	Communicating the Anti-Fraud stance to members, officers and the public may deter those that consider that an attempted fraud is work risking.	-	-	-	↔	The Council demonstrates its commitment to an Anti-Fraud culture, by the regular review, updating and approval of an Anti Fraud Strategy.	Chief Internal Auditor
2	The Council's response to suspected fraud is documented	Investigations are commenced promptly after suspicions are aroused.	-	-	-	↔	The approach to investigating suspected fraud is clearly laid out in the Council's Fraud And Corruption Response Plan appended to the Anti-Fraud and Corruption Strategy. Early liaison with the police, where appropriate is clearly stated in the Council's Fraud And Corruption Response Plan.	Chief Internal Auditor
3	Preventative measures are in place	Preventative measures are in place, including a system of internal controls which are regularly reviewed.	-	-	-	↔	Controls are regularly reviewed by managers and Internal Audit on a risk basis, with vulnerability to fraud being a key part of the audit risk assessment.	Chief Internal Auditor

No	Risk Title	Risk Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
4	Risk of fraud.	Risk of fraud or corruption being perpetrated on the Council.	2	2	4	↔	Preventative measures are in place. These include a system of internal controls which are regularly reviewed, and a zero tolerance policy which is communicated to members, officers, stakeholders and the community. The risk of fraud appears in the Council's risk register.	Chief Internal Auditor
5	Reporting suspected fraud is encouraged.	Fraud or corruption is not identified at an early stage.	2	2	4	↔	The Council's Confidential Reporting Policy (whistle blowing) encourages members, officers and the public to report suspected fraud without fear of reprisals. Internal control measures are in place.	Chief Internal Auditor
6	A professional approach to fraud investigation	Suspected fraud or corruption is not investigated in a sound professional way.	2	2	4	↔	Only appropriately trained officers are appointed to investigate suspected fraud.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

Audit Commission: Protecting the Public Purse – Updated for 2012
 Checklist for Those Responsible for Governance

	Yes	No	2011 Response	2012 Update
General				
1. Do we have a zero-tolerance policy towards fraud?	Yes		<p>The Council's Anti-Fraud, Corruption and Bribery Policy and Strategy (incorporating the Housing Benefit Fraud Prosecution and Sanction Policy) states that the Council is committed to discouraging, preventing and detecting fraud and corruption where attempted on, or from within, the Council's organisation.</p> <p>The risk of fraud has been recorded in the Council's risk register.</p> <p>The Anti Fraud and Corruption Strategy was reviewed in 2011 and updated including to take account of the requirements of the Bribery Act 2011.</p> <p>An email was sent to all staff reminding them of the Council's zero tolerance with a link to the revised Policy and Strategy. A separate procedure document, 'Response Plan', has also been updated and made available to all staff via the Intranet.</p>	<p>An item in the Council's 'Friday Flash' and Members' Bulletin was used to promote the Council's zero tolerance with a link to the revised Policy and Strategy, supported by the Audit Committee.</p> <p>The document also appears on the Council's new website.</p> <p>'Horizon scanning' for unforeseen events forms part of the Strategic Management Risk register. The risk registers are reviewed quarterly by the Risk Management Group which includes the Chief Internal Auditor and Monitoring Officer. Potential fraud risks will be fed into the Internal Audit teams counter fraud work.</p>
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> ?	Yes		<p>As 1 above.</p> <p>The National Fraud Authority's document <i>Fighting Fraud Locally</i> was not available from their web site at the time of completing this checklist.</p>	<p>The National Fraud Authority's document <i>Fighting Fraud Locally</i> was discussed at the September 2012 Audit Committee. Some required actions were noted and are updated in this report.</p>
3. Do we have dedicated counter-fraud staff?	Yes		<p>A dedicated housing benefit fraud and visiting team cover revenues, benefits and housing.</p> <p>Counter fraud and corruption arrangements are a key part of the internal audit of the Council's financial systems and governance framework.</p>	<p>As highlighted in a separate report to this Committee, the 2013/14 Internal Audit Plan includes specific resources for counter fraud work, in response to the action plan from the National Fraud Authority's document <i>Fighting Fraud Locally</i>.</p>

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4. Do counter-fraud staff review all the work of our organisation?	Yes		The internal audit plan covers all of the activities of the Council through a risk based audit approach. Vulnerability to fraud is one of the key components that determine the frequency of audit and resources used for any specific audit area.	Unchanged, except: In including days in future Internal Audit Plans for specific counter audit activities, a plan will be devised to direct the related work in an effective way. This will be reported to the Audit Committee (action plan from the National Fraud Authority's document <i>Fighting Fraud Locally</i>).
5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	Yes		Internal Audit plans are presented to the Audit Committee annually and monitoring reports on activities include fraud risks and a summary of any investigations and their outcomes. Quarterly reports advise the Committee of any suspected or actual fraud identified.	Unchanged, except: The Chief Internal Auditor will bring together a centralised list of fraud risks as part of the Internal Audit team's counter fraud work (action plan from the National Fraud Authority's document <i>Fighting Fraud Locally</i>).
6. Have we assessed our management of counter-fraud work against good practice?	Yes		Audit Commission Protecting the Public Purse checklists complemented and presented to members in 2009, 2010 and 2011. CIPFA Better Governance Forum document Managing the Risk of Fraud. Internal audit assessed annually against the expectations of CIPFA's Code of Practice for Internal Auditors in Local Government.	The National Fraud Authority's document <i>Fighting Fraud Locally</i> considered by the September 2012 Audit Committee and the progress against the action plan reflected in this report. For April 2014, the two assessments of the counter fraud arrangements will be combined (the NFA checklist will not be update in September 2013).

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General				
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> • New staff (including agency staff)? • Existing staff? • Members? • Our contractors? 	Yes		The Council's commitment to the Anti-Fraud and Corruption Strategy is communicated to new staff at induction days and existing staff through the staff news letter and leaflets on notice boards linked to the Whistle Blowing Policy. In addition the revised Anti Fraud, Corruption and Bribery Policy and Strategy was emailed to all staff reiterating the zero tolerance of the Council and drawing officers attention to the Confidential Reporting (Whistle Blowing) Policy. Contractors – fraud risks are managed actively through set pricing schedules and checking of invoices. All Council contracts include our corruption & bribery warnings as standard (this is mandated along with full anti-fraud criteria for EU contracts in line with the directives).	As paragraph 1 above: An item in the Council's 'Friday Flash' and Members' Bulletin was used to promote the Council's zero tolerance with a link to the revised Policy and Strategy, supported by the Audit Committee.
8. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	Yes		<ul style="list-style-type: none"> • The Audit Commission's data matching service (NFI); • The dedicated housing benefit fraud and visiting team and Internal Audit subscribe to the National Anti-Fraud Network and receive regular bulletins, which are forwarded to the relevant service where appropriate. • The Council subscribes to the CIPFA Technical Information Service and other bulletins; • Liaison with other audit and benefit teams particularly in Devon. 	As discussed in the National Fraud Authority's document <i>Fighting Fraud Locally</i> in addition the Department for Work and Pensions Housing Benefits Matching Service is used on a monthly basis. Reference is also being made to a private sector company that helps businesses to manage credit risk and prevent fraud. Internal Audit shares data with neighbouring Council teams relating to fraud and the system weaknesses that allowed the fraud to be perpetrated.

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General				
9. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	Yes		As 8 above plus the Benefits Fraud Team have working arrangements and monitoring meetings with the Department for Work and Pensions (DWP), both Exeter and Plymouth offices.	As 8 above.
10. Do we identify areas where internal controls may not be performing as intended? How quickly do we then take action?	Yes		Internal audit process, results reported to managers, senior managers in detail and in summary to the Audit Committee. Vulnerability to fraud also consider at the start of each individual audit. Action taken quickly depending on the significance of the non performing control and whether other compensating controls are in place to maintain integrity.	Unchanged. Internal Audit will carry out some counter fraud enquiries using Computer Assisted Audit techniques (CAATs).
11. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative (NFI) and receive reports on matches investigated?	Yes		The Council takes part in the Audit Commission NFI. Action is taken and outcomes are reported to the Audit Committee by exception through normal reporting channels where appropriate.	Members were updated with the Council's work on the NFI in September 2012. The results of the latest matched have been released to the Council by the Audit Commission (January 2013).
12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	Yes		Anti-Money Laundering Policy and Procedure was recommended for approval by the Audit Committee on 2nd December 2008. It was also recommended that the S.151 Officer be appointed as the 'Money Laundering Reporting Officer', with the appropriate procedures set up to enable staff to raise their concerns. Relevant staff have been provided with guidance and training on the policy and procedures.	An updated Anti Money Laundering Policy and Procedure was approved by the Council upon the recommendation of the June 2012 Audit Committee, and published on the Council's Intranet and Website.

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General				
13. Do we have effective arrangements for: <ul style="list-style-type: none"> • Reporting fraud; • Recording Fraud; and • Whistler Blowing? 	Yes		The Council's Confidential Reporting (Whistleblowing) Policy was updated by the Monitoring Officer in March 2009 and related Frequently Asked Questions added. These are available to all staff and members on the Intranet including the Staff Pages. In addition a leaflet on staff notice boards provides further guidance. As discussed at 7 above, an email to all staff reminded them of the Confidential Reporting (Whistle Blowing) Policy.	Unchanged.
14. Do we have effective fidelity insurance arrangements?	Yes		Fidelity Insurance cover is in place, with the 'Sums Guaranteed' linked for designated officers to the risk of loss. Reviewed annually by Internal Audit as part of the Treasury Management audit with results reported to the Audit Committee.	Unchanged.

	Yes	No	2011 Response	2012 Update
Fighting Fraud with Reduced Resources				
15. Have we reassessed our fraud risks in the light of the current financial climate?	Yes		CIPFA have supplied a document entitled Audit Planning in the New Financial Climate. Vulnerability to fraud is a component of the annual planning risk assessment for Internal Audit as well as for individual audit exercises.	Unchanged. Various guidance taken into account during audit planning – e.g. CIPFA's "Auditing in an Economic Downturn".
16. Have we amended our counter-fraud action plan as result?	Yes		The CIPFA documents cover a number of different areas that are already included in the risk based annual audit plan. It has therefore remained unchanged.	Counter fraud action plan to be produced for 2013/14 using the resource put aside for specific counter fraud work. The current financial climate will contribute to the risks.
17. Have we reallocated staffing as a result?		No	As 16 above.	Unchanged.

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			2011 Response	2012 Update
Some Current Risk & Issues				
Housing Tenancy				
18. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	Yes		<p>The Council are part of the countywide Choice Based Letting Scheme (Devon Home Choice).</p> <p>Applicants are assessed and placed into bands depending on circumstances and housing need by the responsible Council.</p> <p>Officers registering the data in the system raise any irregularities in application with the Fraud Team.</p> <p>Applicants are able to bid for allocation to a property advertised by the Registered Providers (RP). Allocation offers are made by the RP to the applicant with the highest band/longest time in the band.</p> <p>The RP must verify that the details provided by the applicant are correct prior to allocation.</p>	Unchanged.
19. Do we ensure that social housing is occupied by those to whom it is allocated?	N/A	N/A	<p>It is the responsibility of the Registered Provider (RP) to ensure that the social housing is occupied by those to whom it is allocated, but the Council confirms that the occupation has been completed as expected using the Landlords update on the Devon Home Choice website.</p>	Unchanged.

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			2011 Response	2012 Update
Some Current Risk & Issues				
Procurement				
20. Are we satisfied that procurement controls are working as intended?	Yes		<p>Audited annually without significant issues being raised.</p> <p>Relatively low value procurement covered in the annual creditor payment audit and service audits.</p> <p>Higher values in the annual capital expenditure audit.</p> <p>Contract Procedure Rules and other key procurement documents are readily available as is the advice of the Corporate Procurement Officer who is actively involved in all procurement over £30k.</p> <p>A system exists to 'waive' the rules in specific circumstances and depending on the value, with the approval of the statutory officers and Internal Audit as minimum but without the need for a full report to members.</p>	Unchanged.
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?	Yes		<p>The Contract Procedure Rules were updated and aligned with West Devon Borough Council's equivalent, approved by the Council on November 2011 upon the recommendation of the September 2011 Audit Committee. They reflect the guidance issued by the Office of Fair Trading.</p> <p>The guidance issued by the Office of Fair Trading, which includes reducing the risk of illegal practices such as cartels, will be considered at the next review, the results of which will be presented to members later in the year.</p>	Unchanged.

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	Yes	No	2011 Response	2012 Update
Some Current Risk & Issues (continued)				
Recruitment				
22. Are we satisfied 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? Require agencies supplying us with staff to undertake the checks that we require? 	Yes		<p>Candidates that are selected for interview are required to provide two forms of identity.</p> <p>Referees provided by the applicant are written to by the Council.</p> <p>Evidence of the right to work in the UK via a British passport is required or other relevant documentation in the exact terms expected by the Immigration, Asylum and Nationality Act 2006.</p> <p>Successful applicants are required to provide a National Insurance number.</p> <p>The Council's Agency contract requires the agency to undertake the same recruitment checks that the Council itself undertake.</p>	Unchanged.
Personal Budgets				
23. Where we are expanding the use of personal budgets for social care, in particular direct payments, have we introduced appropriate safeguarding proportionate to risk and inline with recommended good practice?	N/A	N/A	No direct social care responsibilities.	Unchanged.
24. Have we updated our whistle blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	N/A	N/A	No direct social care responsibilities.	Unchanged.

	Yes	No	2011 Response	2012 Update
Some Current Risk & Issues (continued)				
Council Tax				
25. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	Yes		<p>Controls are in place for awarding discounts and a programme of discount reviews is underway.</p> <p>The NFI also covered this area with cases identified by the data matching and discount removed.</p>	<p>A data matching exercise has commenced relating to single persons discount, to compare these discounts with information held in credit agency databases and having regard to the Data Protection Act.</p> <p>Letters have been sent in January 2013 to those people where the numbers of residents don't match asking them to complete and sign a form.</p> <p>The forms returned are being reviewed for fraud risk. If the forms are not returned, it is stated that the discount may be removed, following a reminder.</p> <p>The approach mirrors other Councils and is supported by Devon County.</p>
Housing and Council Tax Benefit				
<p>26. When we tackle housing and council tax benefit fraud do we make full use of:</p> <ul style="list-style-type: none"> • National Fraud Initiative (NFI)? • Department for Work and Pensions Housing Benefit matching service; • Internal data matching; and • Private sector data matching. 	Yes		<p>Policies and procedures are in place as discussed in this checklist.</p> <p>Benchmarking with other local authorities of sanctions taken.</p> <p>A dedicated fraud hotline is available to the public who can anonymously give information about any fraudulent claimant - the Council investigates every report.</p> <p>Full use is made of the NFI and in addition the Department for Work and Pensions Housing Benefits Matching Service on a monthly basis.</p> <p>Reference is also made to a private sector company that helps businesses to manage credit risk and prevent fraud.</p>	<p>Unchanged.</p> <p>Members will be updated with the results of the latest NFI data matching at an Audit Committee in 2013/14.</p>

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	Yes	No	2011 Response	2012 Update
Some Current Risk & Issues (continued)				
Emerging Fraud Risks				
24. Do we have appropriate and proportionate defences against fraud risks: <ul style="list-style-type: none"> • Business rates; • Local welfare assistance; • Local Council Tax support; • Grants? 	Yes		New, no 2011 equivalent.	Internal controls in place for business rates; discretionary housing payments; Council Tax support and Grants. These are all subject to review and testing by Internal Audit with the results reported to the relevant managers and a summary to the Audit Committee.