

**BROMSGROVE DISTRICT COUNCIL**

**AUDIT BOARD**

**7th June 2010**

**PROTECTING THE PUBLIC PURSE – LOCAL GOVERNMENT**

Relevant Portfolio Holder	Geoff Denaro
Relevant Head of Service	Jayne Pickering
Non-Key Decision	

**1. SUMMARY OF PROPOSALS**

- 1.1 To provide advice to the Audit Committee regarding possible fraud and corruption against the Council, as raised by the Audit Commission. To identify those areas of concern for further action, in order to reduce the risk to the Council, by using the Self-Assessment Checklist (see Appendix 1).

**2. RECOMMENDATIONS**

That the Audit Board recommend to Cabinet that:

- 2.1 The checklist at Appendix 1 to be undertaken, in order to provide a baseline of where we are, to ensure sound governance and counter fraud arrangements are working as intended.
- 2.2 To approve the targeting of the risks identified (on following pages), as raised nationally. The implementation of this work will assist the Council to do all it can to address fraud and corruption that may be affecting it/or may affect it in the future.
- 2.3 To ensure that current arrangements are sufficiently robust to reduce the risk of procurement fraud, following the latest Office of Fair Trading guidance to lessen the risk of unlawful practices affecting the award and allocation of contracts.
- 2.4 To authorise and endorse the issue of a survey to all staff to test their perception of fraud issues and whistle-blowing arrangements, how to report issues and how they feel the Council reacts to the threat of fraud. This would be done on an annual basis, with the first survey providing a baseline of data which can be used to establish knowledge across the Council, but also provide indications of work that may need to be undertaken as a result.
- 2.5 That the Audit Board recommend the Council to undertake a commitment to fight possible fraud and corruption against the Council, by initially using the Audit Commission's self assessment Checklist (see Appendix 1) and to consider potential risks to the Council by utilising the Corporate Anti-Fraud Team (CAFT) to identify and prevent such risks.

**3. BACKGROUND**

- 3.1 Fraud against Local Government is highlighted in a number of publications. Assessment of the Council commitment and performance in this area is included within the Use of Resources 2009 Key Lines of Enquiry (KLOE's). The Audit Commission have produced a report titled "Protecting the Public Purse: Local Government fighting fraud". In addition the newly formed National Fraud Strategic Authority is working with organisations across the public and private sector. They have produced a "National Fraud Strategy" as a key element in the Government's response to fraud.

The Audit Commission have produced a checklist (see Appendix 1) for those responsible for governance within local authorities. This assessment enables councils to assess the effectiveness of current arrangements and take action where appropriate, by focussing on high risk areas, setting clear targets and monitoring the outcomes, including monitoring the investment in counter-fraud resources. It also enhances the minimisation of fraud, and the harm it causes, by working with other organisations.

It is an accepted fact that fraud is likely to increase because of the recession, due to increased personal incentives and the controls put in place to prevent and detect fraud come under pressure as councils look to reduce costs. Fraud clearly has an adverse impact on the economy as well as services which the Council needs to provide to its residents. The majority of honest residents pay for it through taxes.

Current estimates from the National Fraud Strategic Authority (part of the Attorney Generals' Department) show £30 billion is lost to fraud each year. This equates to £621 per adult, per year.

Defences against fraud need to continue to be developed to maintain their effectiveness in the face of new threats and risks, as the skills and capabilities of those committing fraud are constantly evolving.

It is important that the issue of addressing fraud is a responsibility that is shared. The main priority must be to protect the public purse, and the cost of resourcing any exercise should be an obligation on all organisations that benefit financially, based on invest-to-save principles.

High risk areas currently identified, in addition to the more traditional areas (e.g. Benefit Fraud), are:

- Tenancy Fraud
- Single Person Discount Fraud
- Recruitment Fraud

**Tenancy Fraud**, whilst the stock of social housing is managed by BDHT, we still have interests in Grants and Renovations, plus Homeless housing. Whilst we have no direct involvement in tenancy related fraud, this could impact on the extra costs of housing homeless families/individuals, temporarily, due to the lack of social housing available. In the Audit Commission report "Protecting the Public Purse: Local Government fighting fraud" it is noted that housing lists have increased by 50% in the last six years alone. This clearly has an impact on the availability of temporary accommodation and the costs associated with that. The issue over false claims for Grants/Renovations is un-determined and therefore no figures are available.

**Single Person Discount Fraud** is claimed by householders where there is only one person in the household aged over 18. They receive a 25% discount on the Council Tax liability for that property. Nationally 35% of households receive this discount. Locally the percentage is just under 29%. Local Council Tax payers meet the cost of these discounts through their own council tax bills.

Whilst the level of Single Person Discount (SPD) Fraud is unclear, the outcomes of initial pilots by the Audit Commission show variances of between 1% and 11% fraud, with most clustered between 4% and 6%. Therefore it is reasonable to assume that SPD fraud is averaging at 4%. For the Bromsgrove District, the value of reductions at 4% (using 2009-10 figures) would equate to £149,080.48. The direct monetary impact for Bromsgrove Council is therefore £19,380.46 (13% of the Council Tax charged). Closer working with County Council, with a sharing of costs, could benefit both providing much needed additional income.

**Recruitment Fraud** is an area, where without adequate vetting procedures, is easy to manipulate by those wishing to exploit opportunities in order to commit fraud from within the organisation. In addition there are also clear risks allowing someone with false or overstated references or qualifications to carry out tasks which they are not qualified to do. The potential consequences of recruitment fraud include:

- fraud or impropriety
- inadequate performance
- risk of harm to vulnerable people
- increased costs associated with suspension, disciplinary action and possible dismissal
- the cost of recruiting and training staff
- high levels of absence
- employment with no right to work in the UK

Good practices, in preventing such issues, include:

- undertaking pre-employment checks
- verifying that the successful job applicants are who they claim to be
- verifying their employment histories and experiences match the application forms
- verifying of qualifications
- undertaking criminal record checks for positions involving access to vulnerable people
- checking records to ensure residency at stated home address
- verification of identity documents.

Due to impact of the recession, competition for employment is rising. This tempts jobseekers to ensure that their qualifications, employment history, experience and references look as good as possible. It is fraudulent if applicants deliberately fail to declare a criminal record or make false statements about their qualifications, experience or their entitlement to work in the UK.

#### **Other Fraud highlighted by the Audit Commission**

The Audit Commission have identified other significant fraud risks which need continuous attention:

- Housing and Council Tax benefit fraud
- Procurement
- Insurance Claims
- Abuse of position frauds
- Blue Badge fraud

#### **Housing and Council Tax Benefit Fraud**

£18.5 billion is spent every year, with fraudulently obtained overpayments estimated to exceed £200 million. Smarter working, using data-matching, both internally and externally, will assist with the identification of incorrectly paid claims for Housing and Council Tax Benefit. Whilst data-matching is regularly undertaken with other Social Security Benefits (via the Department for Work and Pensions), and with the Audit Commission every two years, there is scope for setting up and improving internal data-matching with payroll, licensing, grants, or council tax, subject to the legalities of sharing information. IT systems are already in place to take in this data and to identify possible matches, which could be done either quarterly or six monthly by the Corporate Anti-Fraud Team (CAFT), in addition to the work already done.

**Procurement**

The Council needs to ensure that procurement arrangements currently in place reduce the risk of fraud and are working as intended, following the latest guidance from the Office of Fair Trading. Fraud can occur at any stage of the procurement cycle, from the initial business case to the award and management of the contract. Procurement fraud can take various forms, e.g.:

- deliberate failure to tender in accordance with contract specifications and then submitting false claims for extra costs under the contract
- contractors providing inferior goods or services
- contractors failing to meeting legal obligations such as minimum statutory pay and health and safety regulations
- the submission of false invoices
- collusion amongst bidders, to agree they will not bid competitively for a particular contract
- decision makers not fully disclosing personal interests or agreeing invoices should be paid when contractors have not provided goods or services to the required standard.

**Insurance claims**

Fraudulent insurance claims take place when people who may have been injured, for example by tripping on faulty pavements, make claims against the relevant Council. Some claims are justified but bogus or inflated claims are a major problem, nationally. Currently these cases are highlighted by the use of the National Fraud Initiative data-matching that takes place every 2 years with the Audit Commission. However, if every case was considered from the outset at the time of reporting, this would reduce the impact of investigating possible fraudulent claims at a much later stage.

The UK Insurance industry estimates that it loses more than £1.9 billion each year to this type of fraud, which inevitably means higher insurance premiums for businesses, public bodies and citizens.

**Abuse of Position**

These types of fraud involve employees. Local Authority staff are overwhelmingly honest; however there are a proportion of cases that have been reported to the Audit Commission indicating that financial misrepresentation and false accounting is at a higher risk during times of recession. These are as a result of weak internal controls and usually where individuals with key responsibilities work with little supervision.

It is noted by the Audit Commission that small local councils are at particular risk, as it can be difficult to separate duties where there are small numbers of staff. This type of fraud is highlighted, so that consideration can be given to the audit of processes ensuring that risks are reduced. Where risks are highlighted they should be included within the risk register and actioned accordingly.

**Blue Badge Fraud**

Whilst Bromsgrove Council is not directly responsible for this area (County Council have the responsibility for the issue and administration of Blue Badges), it does have an impact on the income of the Council from Car Parks. The CAFT team would be willing to work with County Council, for the benefit of all Councils, on this project, as we have an IT solution that may assist with the identification of fraudulent used/obtained Blue Badges, thereby improving the income to the local Council.

**Survey and Whistle-blowing**

Whilst the above issues are for consideration by the Audit Board, as already explained on page 1, CAFT would also like to get a commitment from the Audit Board regarding the surveying of all staff across the Council. The purpose of this, would be to establish the perceptions of staff, how they feel fraud is dealt with, whether they feel there is a commitment to the identification and subsequent reduction of fraud affecting the Council and its residents. This would provide a baseline of data, from which annual surveys could be established, but also to provide an insight as to how CAFT can work with staff to improve their awareness and commitment to the fight against fraud.

The same survey would include elements of Whistle-blowing, to test current perception and knowledge. The data obtained would also be used to inform further surveys, in subsequent years.

- 3.2 No local consultations have taken place. However, the above information can be confirmed via the Audit Commissions' "Protecting the Public Purse" publication. Further information is also available from the National Fraud Strategic Authority and from CIPFA "Managing the risk of Fraud" (Red Book 2).

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### **4. KEY ISSUES**

- 4.1 To raise the knowledge and awareness of fraud potentially affecting the Council
- 4.2 To obtain Council commitment to the fight against possible fraud and corruption
- 4.3 To undertake the Audit Commission Self-Assessment Checklist to ensure sound governance and counter-fraud arrangements within the Council.

### **5. FINANCIAL IMPLICATIONS**

- 5.1 With no baseline to establish what is currently lost, it is unknown what financial impact these processes could have, but the identification of fraud against the council, would mean an increased income and reduction in expenditure (e.g. council tax single person discount removals), in addition to the protection of the public purse.

### **6. LEGAL IMPLICATIONS**

- 6.1 Any Fraud against the Council, would be investigated using normal criminal investigative processes, and therefore potentially subject to prosecution under appropriate criminal legislation, such as the Fraud Act 2006. However, the use of data for internal or external data-matching needs to be considered under Data Protection and Data-Sharing principles, in addition to Fair Processing Notices. With regard to Recruitment Fraud, successful applicants would need to be informed that their application will be vetted prior to the take up of employment.
- 6.2 This report is exempt in accordance with Section 100 I of the Local Government Act 1972, as amended, because it contains information regarding the identification of, and possible avenues for the investigation of, fraud against the Council. For these reasons it is felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

### **7. POLICY IMPLICATIONS**

- 7.1 The Corporate Anti-Fraud & Corruption Strategy would need to be updated to reflect those changes approved. It will also need to reflect the national approach to combating fraud, as identified in the National Fraud Strategy by the National Fraud Strategic Authority.

**8. COUNCIL OBJECTIVES**

- 8.1 Improvement – by improving our processes in the way we highlight possible fraud against the Council, we are, by default, protecting the local taxpayer's money by minimising the potential financial loss. It will also improve processes undertaken by individual departments.

One Community – by showing our residents that we take this issue seriously, endeavouring to protect the finances of the Council, this should raise the public perception of how the Council is run for their benefit.

**9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS**

- 9.1 The main risks associated with the details included in this report are:

- Loss of income
- Protection of the public purse
- Loss of reputation

- 9.2 Currently the risks identified in the bullet points in 7.1 are not addressed by any risk register and will be added to the Financial Services risk register as follows:

- To undertake an annual survey of staff perceptions of fraud and how it is dealt with by the Council; to include Whistle-blowing
- To work with HR regarding employment fraud, to reduce the potential impact to the Council
- To undertake investigations into Single Person Discount Fraud; to maximise income to the Council and other interested parties
- To work with the procurement officer regarding contracts and procurement issues
- To ensure that Fair Processing Notices are included on all application forms where there is a financial advantage to the customer, thereby allowing the data-matching of data held both internally and externally.
- To work with the Audit Board to provide advice and guidance to the Board to raise awareness of fraud and how it impacts on the Council.

**10. CUSTOMER IMPLICATIONS**

- 10.1 Additional information can be provided on the BDC website to inform external customers of how Bromsgrove Council takes a 'zero tolerance' stance against fraud. This information would also be reflected on the



internal intranet for staff, with fraud newsletters also keeping staff informed of developments.

Employment Vetting processes would need to be included in HR documentation provided with application forms and successful applicant information.

**11. EQUALITIES AND DIVERSITY IMPLICATIONS**

- 11.1 Any fraud taking place that directly affects the Council will be investigated in line with nationally recognised investigative techniques, which are bound by relevant criminal legislation. Therefore there would be no implications on Equality and Diversity, as ALL customers are treated equally in accordance with the law.

**12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT**

- 12.1 In protecting the public purse the Authority will ensure that funds are utilised appropriately, demonstrating Value for Money.

This will need specific input from the Procurement Officer to ensure that procedures are in place, which conform with those needed by legislation and as indicated by the Office of Fair Trading.

**13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY**

- 13.1 N/A

**14. HUMAN RESOURCES IMPLICATIONS**

- 14.1 Procedures will need to be put in place, with closer working between HR and CAFT. Due to the investigative skills of CAFT, it is expected that CAFT would undertake the 'vetting' of applicants, to ensure they meet criteria laid down.

**15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS**

- 15.1 If all the issues included in this report were accepted, this would help to improve Governance of the Council, both internally and externally (e.g. during times of inspection)

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**16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998**

16.1 NONE

**17. HEALTH INEQUALITIES IMPLICATIONS**

17.1 NONE

**18. LESSONS LEARNT**

18.1 NONE

**19. COMMUNITY AND STAKEHOLDER ENGAGEMENT**

19.1 NONE

**20. OTHERS CONSULTED ON THE REPORT**

Portfolio Holder	YES
Chief Executive	NO
Executive Director (S151 Officer)	YES
Executive Director – Leisure, Cultural, Environmental and Community Services	NO
Executive Director – Planning & Regeneration, Regulatory and Housing Services	NO
Director of Policy, Performance and Partnerships	NO
Head of Service	NO
Head of Resources	NO
Head of Legal, Equalities & Democratic Services	NO
Corporate Procurement Team	NO

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To be circulated for information at future CMT meeting.

**21. WARDS AFFECTED**

ALL WARDS

**22. APPENDICES**

Appendix 1 Audit Commission Self-Assessment Checklist

**23. BACKGROUND PAPERS**

NONE

**AUTHOR OF REPORT**

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## Audit Commission Self-Assessment Checklist

## Checklist for those responsible for governance

	Yes	No	Action
<b>General</b>			
1. Have we committed ourselves to zero tolerance against fraud?			
2. Do we have appropriate strategies, policies and plans?			
3. Do we have dedicated counter-fraud resources?			
4. Do the resources cover all of the activities of our organisation?			
5. Do we receive regular reports on fraud risks, plans and outcomes?			
6. Have we assessed our management of counter-fraud resources against good practice?			
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> <li>■ new staff (including agency staff)?</li> <li>■ existing staff?</li> <li>■ members?</li> </ul>			
8. Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?			
9. Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?			

## Checklist for governance

	Yes	No	Action
10. Do we identify areas where internal controls may not be performing as intended?			
11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on outcomes?			
<b>Fighting fraud in the recession</b>			
12. Have we reassessed our fraud risks because of the recession?			
13. Have we amended our counter-fraud action plan as a result?			
14. Have we reallocated staffing as a result?			
<b>Some current risks and issues</b>			
15. Do we take effective action to ensure that social housing is allocated only to those in need?			
16. Do we take effective action to ensure that social housing is occupied by those to whom it is allocated?			
17. Are we satisfied that payment controls are working as intended?			
18. Have we reviewed our contract letting procedures against the good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels?			

	Yes	No	Action
<p>19. Are we satisfied that our recruitment procedures are:</p> <ul style="list-style-type: none"> <li>■ preventing employment of people working under false identities?</li> <li>■ validating employment references effectively?</li> <li>■ ensuring applicants are eligible to work in the UK?</li> </ul>			
<p>20. Where we are moving to direct payments (for example, social care) have we introduced suitable and proportionate control arrangements in line with recommended practice?</p>			
<p>21. Are we effectively controlling the discounts and allowances we give to council taxpayers?</p>			
<p>22. Are we satisfied that we are doing all that we can to tackle housing and council tax benefit fraud?</p>			
<p>23. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?</p>			