

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

28 January 2013

Report of the Chief Internal Auditor

Part 1- Public

Delegated

1 PROTECTING THE PUBLIC PURSE

Summary

This report informs Members of the latest Audit Commission annual report on fraud issues “Protecting the Public Purse”. The publication includes a checklist for those charged with governance to review their Counter Fraud arrangements.

1.1 Background

- 1.1.1 The Audit Commission report annually on the latest trends in fraud issues to focus on the continuing progress by local government to fight fraud. It also refers to the National Fraud Authority “Fighting Fraud Locally”. This was reported to Members of the Finance & Property Board at their meeting of 9 January 2013.
- 1.1.2 Latest figures published suggest that fraud against public sector organisations costs £20.3 billion per annum with fraud against local government costing over £2.2 billion per annum.
- 1.1.3 A full copy of the report is available on the Audit Commission website at

<http://www.audit-commission.gov.uk/sitecollectiondocuments/downloads/20121107-ppp2012.pdf>

1.2 Issues Raised

- 1.2.1 The report identifies significant changes to services provided by local government namely: -
- Changes to Business Rates
 - Increased Right to Buy discounts
 - Local Welfare Assistance

- Local Council Tax Support
- Single Fraud Investigation Service (SFIS)
- Greater Autonomy for schools

1.2.2 Although some of these areas do not affect Districts there is a move towards joined up fraud investigation and greater sharing of information that may impact on anti-fraud resources.

1.2.3 The two biggest areas of reported fraud against local authorities is still Benefit fraud and Council Tax discount fraud. However, Housing Tenancy fraud is considered to be the largest single fraud loss in local government. This estimate is based upon the costs associated with providing new affordable accommodation and dealing with homelessness.

1.3 Housing Fraud

1.3.1 Although this Council does not have a housing stock it does have a homelessness function and works closely with social landlords to provide housing opportunities.

1.3.2 The Investigation Section has been working closely with their colleagues in the Housing Section and successfully prosecuted a case of a Housing Application where a change of circumstances was not reported. This appears in the report as Case Study 1 as an example of good practice.

1.3.3 It is likely that there will be increasing pressure from central government for social landlords to investigate housing fraud. This is likely to require a closer working relationship with investigation staff in local authorities and involve some financial incentives to do so.

1.4 Council Tax Discount Fraud

1.4.1 The report acknowledges the work undertaken to address this area of fraud. It also reports the lack of financial incentive for districts to resource this area. It suggests that Councils in two tier areas should explore funding arrangements. In Kent, the County is currently already reviewing how it can fund Districts to carry out this work.

1.4.2 This Council has participated in the National Fraud Initiative data matching exercise which takes place every two years. This exercise results in a number of cases where changes have not been notified or the wrong discount has been claimed.

1.4.3 In the report there is mention of joint working where the partnership with Gravesham is commented on as good practice as well as referring to an exercise carried out jointly with KCC and the partnership to tackle discount fraud.

- 1.4.4 Recently the Investigation Section has undertaken a small data matching exercise with internal data to identify potential fraud or error on Council Tax discounts and the Housing Register. Consideration is being given to how further data matches of Council information can be used.

1.5 Procurement Fraud

- 1.5.1 This is another area identified as an increasing area of fraudulent activity. This is usually the result of poor controls over contracting arrangements. The procurement process at Tonbridge & Malling is subject to a process set out in the Financial Rules and Contract Procedure Rules that are intended to minimise these risks.

1.6 Housing and Council Tax Benefit Fraud

- 1.6.1 The report acknowledges the resources that have been input to successfully reduce the level of fraud in these areas.
- 1.6.2 The report also identifies the enormous changes that are taking place in the Welfare Reform Act, the Single Fraud Investigation Service (SFIS) and the introduction of Local Council Tax Support. One of the key messages is that local authorities cannot afford to lose all of their investigatory expertise with the introduction of SFIS.
- 1.6.3 Any retention of investigation skills is likely to be a growth item. The Council has been exploring what skills would be needed post SFIS and how these can be funded.

1.7 Internal Fraud

- 1.7.1 This is an area that the report identifies has been consistently low. When these frauds are reported they do tend to be high publicity cases for substantial sums.
- 1.7.2 However, the report only deals with reported frauds above a de-minimus level and the evidence coming from the National Fraud Authority is that there are a number of ongoing low level frauds such as over claiming business expenses that remain undetected that carry on for a number of years that should be the main concern.
- 1.7.3 Again, sound controls and robust management should be in place to reduce such opportunities.

1.8 Mandate Fraud

- 1.8.1 There has been an increase in frauds where payment mandates have been altered for individuals or businesses so that payments are diverted. This has happened to a Kent district in the last year. Controls are in place so that only an authorised officer can make these changes after a verification check has taken place.

1.9 Emerging Fraud Risks

- 1.9.1 The report highlights a number of areas that the Audit Commission have identified as areas of increased risk or new risk.
- 1.9.2 The Business rates scheme is identified as attracting a number of frauds relating to use of insolvency to avoid rates and failing to declare true circumstances in order to avoid rates. This is identified as a particular concern because local authorities will be retaining this income in lieu of grant from April 2013.
- 1.9.3 The Local Council Tax Support schemes are highlighted as an area where local authorities should be planning fraud prevention controls before it is implemented in April 2013.
- 1.9.4 The payment of grants is identified as an area where local authorities should be ensuring that there are adequate controls in place for applications as well as ensuring that the grant is used for the correct purpose.

1.10 Current Developments to Fight Fraud

- 1.10.1 The report identifies that the formation of SFIS will move benefits investigations to the Department for Work and Pensions. It identifies the need to retain investigator skills in local authorities to continue working on the estimated 50% fraud that is not benefits related.
- 1.10.2 The powers of investigators for benefit investigations are identified as being far stronger in relation to those for other areas of investigation. The Audit Commission proposes that the Government should extend similar powers to all areas of local government investigation.
- 1.10.3 Joint working is advocated as best practice for continuing a fraud investigation service in local authorities. The partnership arrangement between Tonbridge & Malling and Gravesham is quoted as a good example of this in practice.
- 1.10.4 The final point reiterates the need for investigation skills to be applied to other areas of fraud and gives examples of how a London Borough has formed a corporate fraud team and has investigated other areas of fraud.
- 1.10.5 The report highlights that the Audit Commission is to be abolished by the Government but states that it will continue to promote good governance whilst it exists.
- 1.10.6 It proposes that the Government should transfer the governance function to another body.

1.11 Checklist

- 1.11.1 The report contains a Yes/No checklist for those responsible for governance to consider.

1.11.2 This has been completed by the Chief Internal Auditor and is attached with proposed responses and comments. **[Annex 1]**

1.11.3 Members are asked to consider the responses in the checklist and to confirm agreement.

1.12 Legal Implications

1.12.1 There are no direct legal implications arising from this report.

1.13 Financial and Value for Money Considerations

1.13.1 A sound anti-fraud culture can prevent losses occurring through fraud and error. A weak internal control system would also lead to the potential of greater external inspection.

1.14 Risk Assessment

1.14.1 The review of the checklist and keeping Members informed on these issues forms part of the overall corporate governance process for the Council. A sound system of internal control and a high level of fraud awareness help reduce the potential threat of fraud.

1.15 Equality Impact Assessment

1.15.1 There are no issues arising from this report.

1.16 Recommendations

1.16.1 Members are requested to review the responses set out in the checklist **[Annex 1]** and subject to any required amendments it is **RECOMMENDED** that the responses are endorsed.

Background papers:

contact: David Buckley

Audit Commission – Protecting the Public Purse 2012.

David Buckley
Chief Internal Auditor

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	Audit Commission report aimed at raising the level of fraud awareness

Screening for equality impacts:		
Question	Answer	Explanation of impacts
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	Audit Commission report aimed at raising the level of fraud awareness
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.