

Meeting: AUDIT COMMITTEE

Agenda Item: 4

Date: 6th September 2011

ANNUAL ANTI FRAUD REPORT 2010/11

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1. PURPOSE

- 1.1. The purpose of this report is for the Audit Committee to receive and consider the Annual Anti Fraud Report for 2010/11.

2. RECOMMENDATIONS

- 2.1. The Annual Anti Fraud Report for 2010/11 be noted.

3. BACKGROUND

- 3.1. This report provides the Audit Committee with a summary of the anti fraud work undertaken during 2010/11 by the Internal Audit and Anti Fraud teams.
- 3.2. Internal Audit had the following anti fraud responsibilities in 2010/11:
 - National Fraud Initiative – co-ordination and investigation of National Fraud Initiative data matches.
 - Whistleblowing – development of policy and procedure, publicity, and the administration and investigation of Whistleblowing referrals.
 - Investigate any allegations of internal fraud or corruption.
 - Delivery of the mandatory Ethics and Probity training course for new starters.
 - Through the delivery of internal audits make recommendations to improve the internal control environment to minimise the risk of fraud.
 - Provide advice and monitor compliance against the Regulation of Investigatory Powers Act 2000. Take a co-ordinating lead on Office of Surveillance Commissioner visits and provide statistical returns.
- 3.3. The Council's Internal Audit service was transferred to the Shared Internal Audit Service (SIAS) hosted by Hertfordshire County Council from the 1 June 2011. As a

result, for 2011/12, many of the activities in section 3.2 have been transferred to departments within the Council.

- 3.4. For 2010/11, the Council's Anti Fraud Service operated in partnership with Hertsmere Borough Council and their primary objective is to investigate allegations of fraud in relation to Housing and Council Tax Benefits claims. Following investigations, the service will prosecute or sanction individuals where there is sufficient evidence that they have committed fraud against the Council. The Anti Fraud Service are also involved in providing advice and investigating Housing Tenancy Fraud. There are proposal for the Council to enter into an Anti Fraud Service partnership arrangement with East Herts District Council as part of the wider Benefits and Revenues partnership.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

- 4.1. The anti fraud activity undertaken by Internal Audit and Anti Fraud teams during 2010/11 is summarised below.

National Fraud Initiative

- 4.2. Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), a sophisticated data matching exercise which matches electronic data within and between participating bodies to prevent and detect fraud.
- 4.3. The Council has received almost 4,000 data matches for investigation. The data matches included potential duplicate creditors, potential overpayment of housing benefit or single persons discounts for Council Tax, concessionary travel permits that could potentially be cancelled, potential fraudulent insurance claimants, potential payroll fraud and non declaration of company/board directorships.
- 4.4. The table below summaries the errors, frauds and issues that have been identified as a result of the participating in the 2010 NFI to date. The data matches were received from the Audit Commission in January 2011.

| Data Match Type | Fraud/Error | Value | Comments |
|--------------------------------------|---------------------|---------|--|
| Duplicate Creditors | 1 error | £14,202 | The duplicate payment is in the process of being recovered and internal controls have been strengthened. |
| Housing Benefits | None identified yet | - | Data matches are under investigation. |
| Council Tax - Single Person Discount | None identified yet | - | Data matches are under investigation. |

Whistleblowing

- 4.5. The Council recognises that its staff are often in the best position to know when the interests of the public are being put at risk, however they may fear coming forward. To demonstrate the Council's commitment to being open, honest and accountable,

it strongly endorses its whistleblowing policy which takes into account the principles of the Public Interest Disclosure Act 1998. The Act was established to provide protection, and encourage individuals to report any concerns that they may have of improper conduct, malpractice or abuse within the Council or to any of its service users, without the fear of detriment or dismissal.

4.6. During 2010/11 Internal Audit undertook the following whistleblowing related activity:

- Further developed whistleblowing procedures and policy.
- Redesigned the whistleblowing poster and placed the posters in key positions within Council buildings. This will be reviewed annually.
- Attached whistleblowing flyers to every employee payslip in February 2011.
- Monitoring of the whistleblowing email account, whistleblowing@stevenage.gov.uk.
- Received five whistleblowing referrals.
- Investigated and closed five whistleblowing cases. The allegations were not proven however internal controls were strengthened.

Ethics and Probity Training

4.7. The Internal Audit Service delivered five Ethics and Probity training courses in 2010/11 to new starters, the course covers the definition and importance of Ethics and Probity, outlines potential problem areas Council officers may face, details the current Ethics and Probity arrangements at the Council and tells officers where they can get help and advice. Fraud Awareness is also delivered as part of the course by the Anti Fraud Service.

Internal Audit Recommendations

4.8. The prevention and detection of fraud is included within the risk assessment of individual audit assignments. When weaknesses in the internal control environment are identified through audit work, recommendations are agreed with management for implementation.

4.9. In 2010/11, 29 recommendations were made to improve the internal control environment to minimise the risk of fraud, which included four high priority, 14 medium priority and 11 low priority recommendations. The high priority recommendations are summarised below:

- Backdated benefit payments awarded since the implementation of Academy are reviewed and authorised by delegated Officers. Going forward, no backdated benefit payments should be made without appropriate authorisation.
- The Estates Manager reviews the current arrangements for the Outdoor Market site with a view to documenting and approving the operational procedures. In particular:

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- a. Cash collection arrangements (ensuring adequate separation of duties and management supervision)
 - b. Regular rent reviews in line with the corporate review of fees and charges
 - c. Document the Outdoor Market site layout
 - d. Consider the need for formal agreements with regular traders
- Reconciliation between the total expected Commercial Properties income [fees and charges] is detailed and reconciled to the actual Commercial Property income received on Integra on a monthly basis, reviewed and signed off by an appropriate manager.
 - Controls are put in place to address the lack of separation of duties, as the Cemeteries Officer can take a booking, record a booking, raise the invoice and collect the income. Controls could include: a) Moving tasks to the Cavendish Road Administration team. b) A second officer checks the accuracy and completeness of invoices raised. c) Direct payments to the Cemeteries Officer are minimised or witnessed by two officers.
- 4.10. In addition, Internal Audit have followed up the implementation status of the five high priority recommendations that were made in 2009/10 to improve the internal control environment to minimise the risk of fraud. Three of the five recommendations were fully implemented, one recommendation has been partially implemented, another recommendation has been partially implemented and the residual risk has been accepted by management, as detailed below:
- Changes made to supplier bank account details are monitored and reviewed by management on a periodic basis. (fully implemented)
 - All significant Assets disposals are formally reviewed and authorised by an appropriate manager. (fully implemented)
 - Reconciliations between Car Parking expected income and actual income are completed on a monthly basis, reviewed and signed off by an appropriate manager. (partially implemented)
 - Removing the ability for Exchequer officers to be able to print manual cheques. (fully implemented)
 - Reconciliations between Building Control expected income and actual income is completed on a monthly basis, reviewed and signed off by an appropriate manager. (partially implemented and residual risk accepted by management)

Regulation of Investigatory Powers Act 2000 (RIPA)

- 4.11. The Council has the authority to use RIPA to undertake directed surveillance for the prevention and detection of crime or of disorder.
- 4.12. During 2010/11 one application for directed surveillance were granted by an authorising officer. The application was made was in relation to anti social behaviour and has been successfully concluded. A routine inspection of the Council's RIPA arrangements by the Office of Surveillance Commissioners is due to take place in 2011/12.

Housing and Council Tax Benefits

- 4.13. The Council's Anti Fraud Service consists of a shared Anti Fraud Manager with Hertsmere Council and two full time Investigators.
- 4.14. The Anti Fraud Manager and the Investigators are fully trained to prosecution standard and have all attained the Government recognised qualification in Professionalism in Security Pins (PINS).
- 4.15. The Investigators deal mainly with offenses committed under the Social Security Administration Act 1992 and adhere to the Council's Sanction policy.
- 4.16. During 2010/11 the Anti Fraud Service exceeded its balance scorecard performance targets. The table below details the performance information over a three year period:

| Performance Information | 2010/11 Target | 2010/11 | 2009/10 | 2008/09 |
|-------------------------------------|---------------------------|----------------|----------------|----------------|
| Cases investigated | 150 | 199 | 219 | 245 |
| Fraudulent claims identified | 100 | 110 | 103 | 86 |
| Prosecutions and sanctions | 40 | 48 | 36 | 37 |
| Recoverable overpayments identified | £136,000 | £364,427 | £175,651 | £216,167 |

- 4.17 Due to the unpredictable nature of investigations there is likely to be fluctuations year on year.

Action Plan

- 4.18 An action plan to address specific issues identified in this report is detailed below.

| Ref | Action | Responsibility | Timing |
|------------|--|-----------------------|-------------------|
| 1 | Co-ordinate the completion and investigation of the remaining NFI data match reports. | Information Officer | On-going |
| 2 | Ensure effective transition of the counter fraud activities from internal audit to nominated departments within the Council. | Head of Finance | 30 September 2011 |

5. IMPLICATIONS

5.1. Financial Implications

5.1.1. This report details the identification of approximately £14,202 of overpayments as a result of the Council's participation in the NFI. A further £364,426 of overpayments was identified as a result of the Anti Fraud benefits investigations, the identified overpayments exceeds the cost of providing the service by almost £230,000.

5.2. Legal Implications

5.2.1. There are no direct legal implications within the recommendations of this report.

6. BACKGROUND DOCUMENTS

- None

7. APPENDICES

- None