

**Report of the Director of Resources**

**Report to the Corporate Governance and Audit Committee**

**Date: 23<sup>rd</sup> January 2012**

**Subject: Protecting the Public Purse 2011**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. The Audit Commission has released the report '*Protecting the Public Purse 2011*' which provides best practice guidance and examples from other councils on tackling fraud and corruption in local authorities.
2. Internal Audit has undertaken a self assessment of the authority's arrangements to counter fraud and corruption and identified areas where LCC currently meet best practice and where further action may be needed to address emerging risks.
3. The Corporate Governance and Audit Committee is being provided with an analysis of the Audit Commissions report, and the Internal Audit self-assessment to:
  - provide them assurance that the risk of fraud and corruption is being effectively managed; and
  - inform members of best practice so that they are aware of how we are attempting to embed an anti-fraud and corruption culture within the authority.

**Recommendation**

4. The Corporate Governance and Audit Committee is asked to note the assessments made by Internal Audit regarding arrangements to meet the best practice detailed in *Protecting the Public Purse 2011* and also to note the proactive approach being taken in continually improving controls to prevent fraud against the organisation.

# 1 Purpose of this report

1.1 To present to the Corporate Governance and Audit Committee a self assessment of the authority's position against the recommended best practice in the Audit Commission's 'Protecting the Public Purse 2011' report and proposed actions to address areas where further work could be done to address the risk of fraud and corruption.

# 2 Background information

2.1 'Protecting the Public Purse' is an annual Audit Commission report that was published on 10<sup>th</sup> November 2011. The report primarily detailed the findings from their 2010/11 fraud and corruption survey and councils' progress in tackling significant risks highlighted in *PPP2009* and *PPP2010*. More than 480 public sector organisations responded to the survey, a 99% response rate, the survey results therefore show a comprehensive picture of detected fraud across local government in the last year.

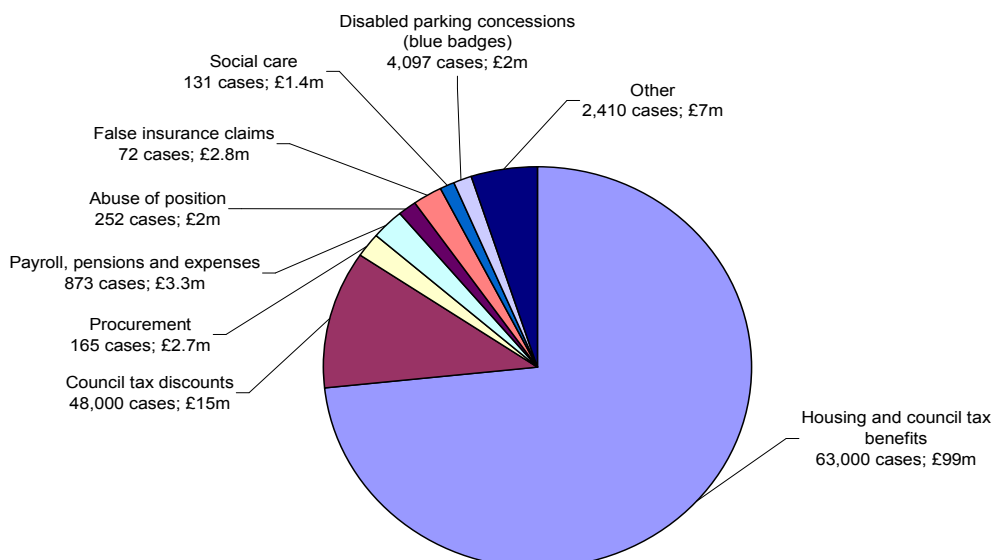
2.2 The 2011 Protecting the Public Purse report states that the National Fraud Authority (NFA) have reported that fraud against councils costs more than £2billion a year. It also states that 121,000 individual fraud cases were reported to the Audit Commission in the 2010/11 survey, which resulted in losses of £185 million. This compares to 119,000 detected incidents in 2009/10 valued at £135 million. The 2010/11 level of detected incidents therefore represents only 9.25% of the NFA estimate, indicating 90.75% remains undetected.

2.3 Also published are two short leaflets, one for school governors and one for parish councillors providing advice on fraud risks as they have concluded the size, complexity or limited numbers of staff in schools and parish councils may mean that internal control is more difficult.

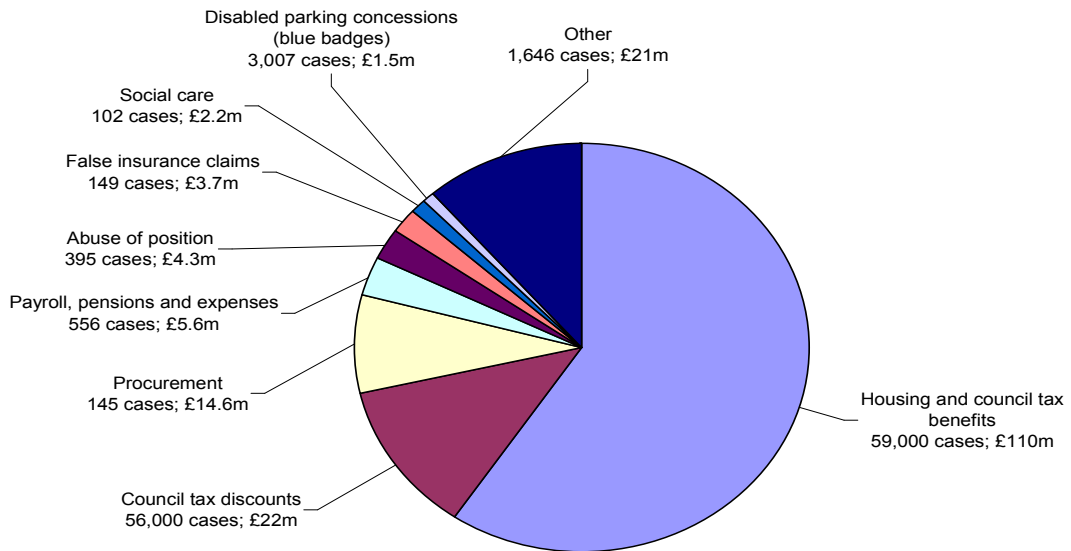
## Key PPP 2011 national statistics

2.4 Internal Audit has analysed the statistics provided in *PPP 2011* on the various fraud types and trends between 2009/10 and 2010/11 shown in the charts below.

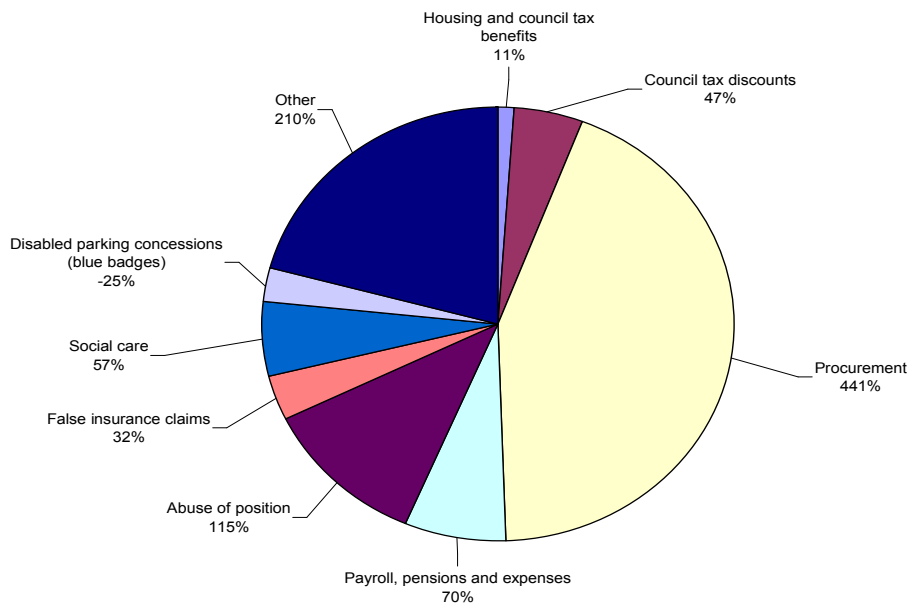
**National value of detected incidents 2009/10 (£m)**



**National value of detected incidents 2010/11 (£m)**



**% change in value**



- 2.5 The 37% increase in the value of detected incidents compared to the 1% increase in the number of cases could mean:
- fraudsters are getting bolder and targeting larger amounts;
  - councils are improving the methods by which they value losses; or
  - councils do not have the resources to investigate all frauds and are therefore targeting their resources better to higher value cases.

2.6 The majority of detected fraud losses reported in 2010/11 related to Housing and Council Tax Benefit fraud (59% of the total) and Council Tax discounts fraud (12% of the total). 'Other' fraud types therefore accounted for 29% of the total value.

### 3 Main issues

3.1 Protecting the Public Purse emphasised the importance of an organisational culture that supports action against fraud. It also states counter-fraud specialists need accurate information about the levels and types of fraud to identify key risk areas and target plans, strategies and resources to where prevention and detection work can have the most impact.

3.2 The report highlights the key fraud risk areas nationally as follows:

- **Housing tenancy fraud-** tackling this area is described as “one of the most cost-effective means of making social housing properties available to match the demand from those in genuine need” and reduced the significant financial loss to the public purse caused by this fraud. It is estimated to cost councils on average £18,000 a year for each of the families they place in temporary accommodation. Further work is believed necessary from councils to work with housing associations to tackle tenancy fraud, and for all registered social housing providers to give consideration to applying both civil and criminal legal action on a case by case basis in order to recoup losses and deter potential tenancy fraudsters. New legislation to enable this to occur has been proposed by the government and a consultation document on it is due to be issued shortly by the CLG.
- **Council Tax fraud-** the report discusses single person discount (SPD) fraud (where a 25% discount is given) and 4-6% of claims are believed to be fraudulent costing taxpayers at least £90 million a year. It also details the emerging risk of student exemption fraud (where a 100% exemption is given) which it states could represent a financial loss similar in scale to SPD fraud.
- **Personal budgets (direct payments) fraud-** the fraud risks in this area include a person falsely claiming they need care, fraud by someone managing the personal budget of the person in need and fraud by an organisation or someone providing care to the person in need. The number of personal budgets is said to have increased by 55% in the last year alone and is set to increase further so this risk requires careful management to ensure we safeguard the interests of those in genuine need.
- **Procurement fraud-** fraud in this area can occur at any stage in the procurement cycle from the first business case to the award and management of a contract, and it can be carried out by external providers or internal parties in various forms. The NFA estimates that procurement fraud costs councils £855 million a year. Losses in individual cases can be large however it is often difficult to determine this type of fraud from error and bad contract management and to quantify the losses to procurement fraud.
- **Housing and council tax benefit (HB/ CTB) fraud -** The NFA estimates that housing benefit fraud losses alone (excluding those to council tax benefit fraud)

in the UK cost councils £260 million a year and the PPP 2011 figures show that this is the prevalent kind of fraud detected. The government proposes to set up a single fraud investigation service (SFIS) in 2013 that could include housing benefit fraud investigators currently employed by councils. The Audit Commission highlights the risk to councils of losing such valuable investigative resources and recommends that they review their counter-fraud capability in the light of the proposed changes.

- **Emerging fraud risks** identified in the survey include:
  - the impact of the current economic climate putting more pressure on individuals' finances and tempting people to commit fraud;
  - reduced staff numbers which may weaken councils' internal controls;
  - fraudsters abusing the expenditure information that councils are now asked to publish by the CLG in order to defraud local public bodies; and
  - the expansion of personal budgets in social services.

- 3.4 The report states that councils can make significant savings by reducing fraud which can help protect frontline jobs and services. In its conclusion it details various best practice documents in managing the risk of fraud, which are to be published in 2012 such as the NFA's *Fighting Fraud Locally*, the results of the 2010/11 National Fraud Initiative (NFI) and a new Audit Commission counter fraud and corruption manual.
- 3.5 It again states the need for a zero tolerance culture towards fraud and for counter fraud teams to be able to work collaboratively with other public sector organisations, assess the risk of fraud accurately and consider it before launching projects and programmes, measure and report losses appropriately and change systems where they are vulnerable to fraud.
- 3.6 Internal Audit has carried out a self assessment of the arrangements currently in place at Leeds City Council against the recommendations made in Protecting the Public Purse 2011 and developed an action plan to manage our response to the report which can be found at Appendix 1 to this report.
- 3.7 Similarly Internal Audit has also answered the questions detailed in the "Checklist for those charged with governance" appended to PPP 2011 and identified areas where further action is considered necessary to meet best practice requirements. This document is attached as Appendix 2.
- 3.8 Carrying out this self assessment has identified we have already introduced many key areas of best practice detailed in the report, for example:
  - Our zero tolerance stance, the use of a modern proactive approach and allocation of dedicated resources to counter fraud and corruption.
  - The data matching work we are undertaking in partnership with a leading credit reference agency in order to identify council tax single person discount, empty property discount, council property sub-letting and our participation in the NFI.

- Proactive work using data matching techniques, for example on the Council's creditors system.
- The sharing of strategic and operational good practice and information on emerging risks we undertake with other local authorities.
- The development of a fraud risk register to focus our proactive work in order to use our resources more effectively.
- The issue of an Anti-Bribery Policy and communications, including presentations to staff on the Bribery Act 2010 and what it means for Leeds City Council.
- Bi-monthly reports to Corporate Governance and Audit Committee (CGAC) on how we are tackling fraud risks, carrying out our plans and outcomes delivered.

3.9 However, the fight against fraud is a continuous activity and the Internal Audit review of Protecting the Public Purse 2011 has identified areas where further initiatives can be introduced, details of which can be found in the appendices. For example:

- Ensuring personal budget arrangements safeguard those under our care.
- Ensuring effective action is taken to improve the use of criminal and civil action to deter tenancy fraudsters and target the profits of tenancy fraud when legislation is introduced to enable us to do this.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

4.1.1 This report is not believed to have a significant impact on any particular area/ ward or specific Budget and Policy Framework implications therefore consultation and engagement on it has not been undertaken.

### **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 This report is not related to any key or major decision and is not believed to have any equality and diversity or cohesion and integration impact.

### **4.3 Council Policies and City Priorities**

4.3.1 This report is linked to the following Leeds City Council policies which are all managed by Internal Audit:

- Fraud and Corruption Strategy/ Policy
- Whistleblowing Policy
- Raising Concerns Policy
- Anti-Money Laundering Policy

- Anti-Bribery Policy

4.3.2 It also contributes to work on the following council values :

- Working as a team for Leeds
- Being open, honest and trusted
- Treating people fairly
- Spending money wisely

#### **4.4 Resources and Value for Money**

4.4.1 The Audit Commission states that reducing fraud can make an important difference to local finances. The report therefore has implications for our core value of 'Spending money wisely' as losses to fraud cannot be used to meet council priorities and contribute to the Vision for Leeds.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 The legal implications of increased partnership working, in particular regarding the sharing of data to identify fraud and corruption, will have to be considered.

#### **4.6 Risk Management**

4.6.1 The report provides best practice and statistical information to be considered as part of the Resources directorate risk 'Failure to embed an anti-fraud and corruption culture across the Council'.

### **5 Conclusions**

5.1 As stated by the Audit Commission "reducing fraud can make an important difference to local finances". The self assessment indicates the organisations control environment in the main reflects the best practice detailed in the *Protecting the Public Purse 2011* report.

5.2 However, the risk of fraud is perceived to be increasing and as such our organisational response to it is continually assessed and updated. The Internal Audit action plans detailed in the appendices will drive this agenda forward.

### **6 Recommendations**

6.1 The Corporate Governance and Audit Committee is asked to note the assessments made by Internal Audit regarding arrangements to meet the best practice detailed in *Protecting the Public Purse 2011* and also to note the proactive approach being taken in continually improving controls to prevent fraud against the organisation.

### **7 Background documents**

7.1 Audit Commission, *Protecting the Public Purse 2011*, November 2011

7.2 Audit Commission, *Fraud risks in parish and town councils- a guide for councillors*, November 2011

- 7.3 Audit Commission, *Fraud risks in schools- advice for school governors*, November 2011
- 7.4 Audit Commission, *Protecting the Public Purse 2010*, October 2010
- 7.5 National Fraud Authority, *Annual Fraud Indicator*, January 2011
- 7.6 Department for Communities and Local Government, *Tackling Unlawful Tenancies and Occupancy: Good Practice Guidance for Social Landlords*, November 2009
- 7.7 Chartered Institute of Public Finance Accountants (CIPFA) Better Governance Forum, *Managing the Risk of Fraud – Actions to Counter Fraud and Corruption (Red Book 2)*, October 2008
- 7.8 Leeds City Council, *Whistleblowing Policy*, February 2008
- 7.9 Leeds City Council, *Raising Concerns Policy*, August 2008
- 7.10 Leeds City Council, *Anti-Money Laundering Policy*, April 2009
- 7.11 Leeds City Council, *Anti-Bribery Policy*, November 2011