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Blackpool Council

15 November 2016

To: Councillors Cox, Elmes, Galley, Hobson, Hunter, Matthews, Mitchell, Roberts and L Taylor

The above members are requested to attend the:

AUDIT COMMITTEE

Thursday, 24 November 2016 at 6.00 pm
in Committee Room A, Town Hall, Blackpool

A G E N D A

1   DECLARATIONS OF INTEREST

Members are asked to declare any interests in the items under consideration and in doing so state:

(1) the type of interest concerned; and

(2) the nature of the interest concerned

If any member requires advice on declarations of interests, they are advised to contact the Head of Democratic Governance in advance of the meeting.

2   MINUTES OF THE LAST MEETING HELD ON 20 OCTOBER 2016   (Pages 1 - 8)

To agree the minutes of the last meeting of the Audit Committee held on 20 October 2016 as a true and correct record.

3   STRATEGIC RISK REGISTER - FAILURE TO KEEP PEOPLE SAFE   (Pages 9 - 12)

To consider a progress report on individual risks identified in the Council's Strategic Risk Register.

4   RISK SERVICES QUARTER TWO REPORT - 2016/2017   (Pages 13 - 26)

To provide to the Audit Committee with a summary of the work completed by Risk Services in quarter two of the 2016/2017 financial year.

5   ANNUAL AUDIT LETTER 2015/2016   (Pages 27 - 36)

To consider the Annual Audit Letter 2015/2016.

6   NATIONAL FRAUD INITIATIVE REPORT 2016   (Pages 37 - 86)

To consider an overview of the outcome of the 2014-2016 National Fraud Initiative exercise and lessons learned from the process.

7   PUBLIC SECTOR INTERNAL AUDIT STANDARDS EXTERNAL ASSESSMENT   (Pages 87 - 108)

To consider the findings of the Public Sector Internal Audit Standards External Assessment.

8   DATE OF NEXT MEETING

To note the date and time of the next meeting of the Committee as 19 January 2017, commencing at 6.00 p.m.

Venue information:

First floor meeting room (lift available), accessible toilets (ground floor), no-smoking building.

Other information:

For queries regarding this agenda please contact Chris Kelly, Acting Scrutiny Manager, Tel: 01253 477164, e-mail chris.kelly@blackpool.gov.uk

Copies of agendas and minutes of Council and committee meetings are available on the Council's website at www.blackpool.gov.uk.

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 20 OCTOBER 2016

Present:

Councillor Galley (in the Chair)

Councillors

Cox	Hobson	Matthews
Galley	Hunter	O'Hara

In Attendance:

Mr Steve Thompson, Director of Resources.
Mr John Blackledge, Director of Community and Environmental Services.
Mrs Tracy Greenhalgh, Chief Internal Auditor.
Mr Iain Leviston, Manager, KPMG.
Mr Steve Sienkiewicz, Clerk to the Committee.

1 DECLARATIONS OF INTEREST

There were no declarations of interest on this occasion.

2 MINUTES OF THE LAST MEETING HELD ON 22 SEPTEMBER 2016

The Committee agreed that the minutes of the last meeting held on 22 September 2016 be signed by the Chairman as a true and correct record.

3 SELECTIVE LICENSING SCHEME - INTERNAL AUDIT

The Committee considered a report which detailed the actions taken to address the recommendations of the Internal Audit review on the Selective Licensing Scheme. It was noted that the report had been requested by Members at the last meeting of the Committee, where it had been noted that the audit review had identified that the expenditure incurred by the scheme was reasonable and in line with its delivery objectives. However, it had also been considered that there should have been more robust management by the service to ensure that budgets for schemes reflected actual expenditure and that the focus of the service had been on outcomes, rather than monitoring resources.

Mr Blackledge, Director of Community and Environmental Services, introduced the report and began by stressing what a positive experience the Audit process had been. He explained that the Selective Licensing Scheme was a huge undertaking and that approximately 2000 properties were covered by the scheme to date. In explaining the process to the Committee, he acknowledged that the scheme had raised a number of questions, particularly around costs. Mr Blackledge explained that any costs that related to enforcement issues came out of the Council's Revenue Budget and not from the scheme itself. He now received regular

updates on that subject and was confident that a far more robust process was now in place, helped by a greater focus now being placed on bad debtors through the Cedar system. He added that recent figures obtained from the police showed reductions in both crime and anti-social behaviour, which helped to illustrate the success of the scheme.

Responding to questions from the Committee, Mr Blackledge reiterated that the costs from the scheme paid for its management, but not for any enforcement action. He explained that whilst Legal Services documented all of their time on casework in relation to enforcement issues, the Public Protection department remained outcome focussed.

Asked about the acceptance and popularity of the scheme, the Committee was informed that the majority of landlords both accepted and appreciated the scheme. Mr Blackledge mentioned however that the media tended to concentrate on prosecution cases, so there was a requirement to change the emphasis of the media to focus more on positivity and the work of good landlords.

Mr Blackledge was asked about the approach that was taken with absent landlords and those that employed management companies. Particular concern was raised about what action Councillors should take when complaints were received in relation to absent landlords. Members were informed that an extremely robust approach was taken in such cases and that any complaints received should be referred directly to the scheme.

The Committee raised questions in relation to specific recommendations within the Audit Action Plan. In relation to Recommendation 7 'the budget holder should develop recovery plans for the forecast overspends on both schemes' and the agreed action 'a plan will be developed to reduce overspend and rationalise staffing levels as appropriate', Mr Blackledge was asked to provide a further explanation. He outlined that part of the focus was on time spent and costs involved, however it could not be analysed as an exact science. There would be some staffing reductions made as a result of greater efficiencies achieved.

Relating to Recommendation 5 and the requirement to review and confirm staff time allocated to the Clarement Scheme to avoid any further issues, Mr Blackledge was asked how that would work. He explained that there had been a misallocation of costs amounting to £37,000.00. However, the costs needed to be understood in the context of an overall budget of £1.5m. The South Beach Scheme was now coming to an end and more certainties existed around costs, particularly around the scheme and enforcement issues. Mr Blackledge further explained that he now met regularly with the Housing Manager and Service Manager to ensure a more robust budget monitoring process was in place.

Pointing out that there were seven priority 2 recommendations contained within the Action Plan, Mr Blackledge was questioned about his level of confidence that all could be delivered. He responded by explaining that the challenge from the Audit process had helped enormously in improving the Selective Licensing Scheme and that in such a huge undertaking, it was considered an achievement that no priority 1 recommendations had been issued.

The Committee thanked Mr Blackledge for his attendance and agreed to note the report.

Background papers: None.

4 STRATEGIC RISK REGISTER - SERVICE FAILURE

The Committee considered a progress report in relation to the individual risks identified on the Strategic Risk Register, specifically in relation to risks regarding 'Service Failure'. The Committee discussed plans to control and mitigate the risks with the strategic risk owner, Mr Thompson, Director of Resources.

Mr Thompson began by explaining that the risk of service failure was split between external and internal provision of services. In the case of the former, the sub-risk was identified as 'Failure of a service provider in high risk contracted areas such as Social Care and Waste Management'. He pointed out that in the current climate, it was not unusual for providers to go into administration. In such cases, where a service was terminated, the Council had a statutory duty to provide continuity. An example quoted was the provision of services to residents in care homes. To mitigate against risks, the Committee was informed that contractors were required to provide adequate business continuity arrangements, although difficulties arose where services were sub-contracted.

In relation to internal services and the sub-risk 'Loss of key infrastructure which results in Council services not being delivered, such as ICT and property', Mr Thompson advised that ICT (as an example) was a common thread that most services relied upon and that the property portfolio, together with the services within, needed to be prioritised. The Corporate Risk Management Group was involved in testing priorities and an example quoted was the arrangements that were in place to ensure continuity of services in the case of a flu epidemic. On the requirement to ensure that all services had up to date business continuity plans in place, it was pointed out that the current proportional figure within the Council was 95% against a target of 90%. Mr Thompson mentioned however that the current aim was to achieve 100% in the near future.

Mr Thompson also advised that it was important not to lose sight of the full spectrum of risks that may impact on service failure in the future. A feature of the current financial climate was that some local authorities were forecasting considerable risks in relation to forthcoming budget issues going forward.

Mr Thompson was questioned about risks that were considered to be uncontrollable and the types that were considered to be so. He explained that a flu epidemic would be a good example and a flu pandemic would be considered critical. External inspections that affected the operation of care comes was also quoted. He explained that whilst processes were in place to mitigate against such failures, it was not possible to provide continuous monitoring. It was further explained that risks around infrastructure were easier to manage.

The Committee raised questions around corporate ICT business continuity and resilience against a possible cyber attack. Specifically, the question around the adequacy of the Council's server back up arrangements at Municipal Buildings and Bickerstaffe House. Mr

Thompson acknowledged that the risk of cyber attack was a prevalent threat and would feature within the Quarter 3 Internal Audit report. In relation to adequacy, he advised that external provision could be bought, although at a premium cost and the risk needed to be balanced against that cost. Continuing on the subject of ICT back up arrangements, the Committee asked whether additional steps were not being taken due to costs. Mr Thompson explained that even if additional arrangements were located elsewhere, there would still be an element of risk. Under the current arrangements, the Council had direct control and influence over the risk. In terms of the actual risk rating for ICT back up arrangements which was currently at amber, Mr Thompson was asked about the possibility of achieving a green rating. He explained that it would never be possible to totally eliminate risk in the area and was therefore comfortable with an amber rating.

Mr Thompson was questioned about the level of staff turnover in ICT and whether the right people were in place. He acknowledged that experienced ICT personnel were a marketable resource and that ultimately the answer to the question was based upon judgement. The Council continued to strive to be an attractive proposition to ICT employees.

The Committee asked questions relating to the net score of 16 on the register against the sub risk of external service failure in a high risk area. In particular, Members asked whether benchmarking had been undertaken with other unitary authorities that faced the same issues. Mr Thompson responded by explaining that benchmarking was not possible because the circumstances were so different between authorities. In terms of the score itself, Mr Thompson suggested that the difference between a score of 16 and 20 was not material and the focus ought to be more on whether the rating was at red or amber. He added that further mitigation methods were unlikely to reduce the figure any further.

The Committee thanked Mr Thompson for his attendance and agreed:

1.   To note the report.
2.   To receive the Quarter 3 Internal Audit report at a future meeting of the Committee.
3.   To request the attendance of the Head of ICT at the same meeting that the Quarter 3 Internal Audit report is considered.

Background papers: None.

5 CIPFA FRAUD TRACKER 2016

The Committee considered the Chartered Institute of Public Finance and Accountancy (CIPFA) Fraud and Corruption Tracker report for 2016, together with the Council's plans and response to the recommendations.

The report was presented by Mrs Greenhalgh, Chief Internal Auditor. The Committee was informed that the report gave a national picture of fraud, bribery and corruption in the UK's public sector and the actions being taken to prevent it. The report summarised the results of a survey carried out among authorities across the country (of which Blackpool was a contributor) and was supported by a number of other agencies. It was the second survey of

this type and gave the opportunity to look for achievements, trends and emerging threats in the sector.

Mrs Greenhalgh talked the Committee through the CIPFA recommendations and the action being taken by the Council to address them. She then responded to questions in relation to the report and action plan.

The report made reference to a case study where Oldham Council had worked with the Department of Work and Pensions (DWP) to create the Single Fraud Investigation Service (SFIS) as part of a pilot national programme. Mrs Greenhalgh confirmed that a Single Fraud Investigation Service was established in Blackpool in April 2015.

On the subject of shared data, Mrs Greenhalgh acknowledged that there continued to be problems as the Department for Work and Pensions were unable to access the Council's data. Asked about prevention measures in relation to business rates fraud, Mrs Greenhalgh confirmed that work was already being carried on by the Business Rates team and further links with the Corporate Fraud team were being considered.

The Committee discussed purchasing and procurement arrangements and the different arrangements that existed between various departments. Mrs Greenhalgh stressed that the Council had a strong procurement framework in place and that all departments should follow contract procedure rules. The procedures were also covered by regular audit procedures.

Members went on to question Mrs Greenhalgh in relation to the action plan recommendation that stated 'it is important to prevent fraud that has no direct financial interest, such as data manipulation and recruitment, as it is high value fraud'. The response to that was that currently, the Corporate Fraud team responded to referrals, but had not undertaken any proactive work. However, it would be built into the revised proactive anti-fraud work programme going forward to assess the risk to the Council. Mrs Greenhalgh provided current examples of proactive work that included the Council Tax (single person discount and reduction scheme), the Blue Badge scheme and the checking on whether expenditure made via purchase cards was appropriate.

On the subject of anti-fraud measures within the Council's own insurance claims, Mrs Greenhalgh confirmed that work would be led by the Corporate Fraud Team, in partnership with other departments, including Highways and Legal Services.

Asked what she considered to be the three highest risk areas faced in relation to fraud issues, Mrs Greenhalgh outlined the following:

1.   Having the capacity to identify fraud risk and investigate allegations.
2.   Insurance fraud.
3.   Council Tax fraud.

The Committee agreed to note the report.

Background papers: None.

6 LOCAL GOVERNMENT COUNTER FRAUD AND CORRUPTION STRATEGY 2016-2019

Mrs T. Greenhalgh, presented the Committee with the newly released Local Government Counter Fraud and Corruption Strategy 2016-2019. The purpose of the document was to outline the direction that the service was going and to identify a number of challenges, which included:

- The significant fraud losses which occur in local authorities.
- The reputational damage fraud had on local authorities.
- The fact that fraudsters were constantly revising and sharpening their techniques and the need for local authorities to adapt to meet these challenges.
- The need to tackle cross-boundary and organised fraud and corruption attempts as well as addressing new risks.
- The changing public sector landscape including budget reductions, service remodelling and integration and government policy changes.
- Barriers to tackling fraud effectively including incentives, information sharing and powers.

In order to meet the challenges, there was a requirement for local authorities to continue to develop the following principles:

- Acknowledge fraud risks exist.
- Prevent and detect more fraud.
- Pursue by punishing fraudsters and recovering losses.

Mrs Greenhalgh responded to a number of questions from the Committee on the contents of the document. Asked about how the profile of fraud risk was being raised amongst staff and what rewards or praise existed for staff discovering fraud, Mrs Greenhalgh explained about the Council's Whistle blowing Policy and the Fraud Referral Policy. She explained that the majority of staff who exposed any sort of fraud would not want any sort of publicity from it and would prefer to remain anonymous.

Asked about what checks were in place against malicious reporting, Mrs Greenhalgh explained that fact finding checks were always undertaken and appropriate action taken against anyone who made malicious reports.

The Committee discussed the possibility of error being mistaken for fraud. Mrs Greenhalgh confirmed that the possibility of error was always considered and investigated appropriately.

On the subject of staff training, the Committee was informed about the fraud awareness ipool course and the face to face training that took place in high risk areas. In relation to elected member training and specific training for Audit Committee Members, Mrs

Greenhalgh explained she would consider further and would be happy to offer training if there was a willingness amongst Members.

The Committee made reference to the financial incentives that had been made available to local authorities for anti-fraud measures as detailed in the Strategy. Mrs Greenhalgh confirmed that Blackpool had placed a bid for funding but unfortunately was not successful and further feedback was not available.

Mrs Greenhalgh was asked whether any of the recommendations for local authorities, contained with the Delivery Plan section of the report, stood out in particular. She confirmed that the Council was already working on a number of the recommendations but needed to improve on anti-fraud measurement. She stressed however the importance of this taking place in partnership with other authorities. She added that a consistent baseline measurement methodology would be very helpful.

The Committee thanked Mrs Greenhalgh for her attendance and agreed the following:

1.   To note the report.
2.   To request that Democratic Governance liaise with Internal Audit on the subject of anti-fraud training for elected members and to encourage the take up of any offer.

Background papers: None.

7 DATE OF NEXT MEETING

The Committee noted the time and date of the next meeting as 6pm on Thursday 24 November 2016 at Town Hall, Blackpool.

Chairman

(The meeting ended at 7.10 pm)

Any queries regarding these minutes, please contact:
Chris Kelly, Senior Democratic Governance Adviser
Tel: 01253 477164
E-mail: chris.kelly@blackpool.gov.uk

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Report to:	**AUDIT COMMITTEE**
Relevant Officers:	Steve Thompson, Director of Resources
	Delyth Curtis, Director of People
Date of Meeting	24 November 2016

STRATEGIC RISK REGISTER – FAILURE TO KEEP PEOPLE SAFE

1.0 Purpose of the report:

1.1 The Committee to consider a progress report on individual risks identified in the Council's Strategic Risk Register.

2.0 Recommendation(s):

2.1 Members will have the opportunity to question the Director of Resources and Director of People on identified risks on the Strategic Risk Register in relation to Failure to Keep People Safe.

3.0 Reasons for recommendation(s):

3.1 To enable the Committee to consider an update and progress report in relation to an individual risk identified on the Strategic Risk Register.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council?   No

3.2b Is the recommendation in accordance with the Council's approved budget?   Yes

3.3 Other alternative options to be considered:

To not receive an update report, however this would prevent the Committee from monitoring and asking relevant questions of the Strategic Risk Owners in relation to significant risks identified on the Strategic Risk Register.

4.0 Council Priority:

4.1 The relevant Council Priorities are

- •"The economy: Maximising growth and opportunity across Blackpool"
- •"Communities: Creating stronger communities and increasing resilience"

5.0   **Background Information**

5.1   At its meeting in June 2016, the Audit Committee agreed to continue to invite Strategic Risk Owners to attend future meetings to provide updates and progress reports in relation to the individual risks identified on the Strategic Risk Register.

Does the information submitted include any exempt information?   No

List of Appendices:

Appendix 3(a) - Excerpt from Strategic Risk Register

6.0   **Legal considerations:**

6.1   None

7.0   **Human Resources considerations:**

7.1   None

8.0   **Equalities considerations:**

8.1   None

9.0   **Financial considerations:**

9.1   None

10.0   **Risk management considerations:**

10.1   None

11.0   **Internal/ External Consultation undertaken:**

11.1   None

12.0   **Background papers:**

12.1   None

Risk	Sub No	Sub Risk	Impact / Consequences	Opportunity	Gross Risk Score			Controls and Mitigation	Net Risk Score			New Developing Controls	Risk Manager	CLT Risk Owner	Target Date	Corporate Priority
					I	L	GS		I	L	NS					
Failure to keep People Safe	4a	Death, serious injury or harm of a vulnerable adult / child.	Inspection failure (Ofsted / CCQ). Trauma for family of the victim. Potential criminal charges for staff involved. Significant liability claim received.		5	5	25	Safeguarding processes and procedures. Training and professional development. Contract monitoring. Risk assessments.	5	3	15	Review all safeguarding procedures and constant auditing.	Director of Adult Services / Deputy Director of Children's Services	Director of People	Ongoing	Communities
	4b	Death or injury to a member of staff or the public.	Trauma for family of the victim. Corporate manslaughter changes, prosecution with unlimited fines and potential prison sentences for those in control. Civil compensation claims. Reputational damage.		5	5	25	Full suite of health and safety arrangements and guidance notes available on the Hub. Programme of health and safety management system audits in place. Suite of health and safety training available for all employees. Team of qualified health and safety professionals.	5	3	15	Addition of health and safety roles and responsibilities in job descriptions. Support and assistance from CLT to embed the monitoring process.	Chief Internal Auditor	Director of Resources	Ongoing	Communities

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Report to:	AUDIT COMMITTEE
Relevant Officer:	Tracy Greenhalgh, Chief Internal Auditor
Date of Meeting	24 November 2016

RISK SERVICES QUARTER TWO REPORT - 2016/2017

1.0   Purpose of the report:

1.1   To provide to the Audit Committee with a summary of the work completed by Risk Services in quarter two of the 2016/2017 financial year.

2.0   Recommendation(s):

2.1   To consider the findings from the Risk Services Quarterly report.

3.0   Reasons for recommendation(s):

3.1   The report covers areas relevant to the work of the Committee in terms of internal audit, corporate fraud, risk and resilience and health and safety.

3.2a   Is the recommendation contrary to a plan or strategy adopted or approved by the Council?   No

3.2b   Is the recommendation in accordance with the Council's approved budget?   Yes

3.3   Other alternative options to be considered:

N/a

4.0   Council Priority:

4.1   The relevant Council Priorities are

•"The economy: Maximising growth and opportunity across Blackpool"
•"Communities: Creating stronger communities and increasing resilience"

5.0   Background Information

5.1   Each quarter the Chief Internal Auditor produces a report summarising the work of Risk Services and this includes the overall assurance statements for all audit reviews completed in the quarter.

Does the information submitted include any exempt information?   No

List of Appendices:
Appendix 4(a): Risk Services Quarter Two Report

6.0   Legal considerations:

6.1   All work undertaken by Risk Services is in line with relevant legislation.

7.0   Human Resources considerations:

7.1   None.

8.0   Equalities considerations:

8.1   None.

9.0   Financial considerations:

9.1   All work has been delivered within the agreed budget for Risk Services.

10.0   Risk management considerations:

10.1   The primary role of Risk Services is to provide assurance that the Council is effectively managing its risks and provide support to all services in relation to risk and control. Risks that have been identified in the quarter are reported in the summary report.

11.0   Ethical considerations:

11.1   None.

12.0   Internal/ External Consultation undertaken:

12.1   The Risk Services Quarterly Report was presented to the Corporate Leadership Team on the 1 November 2016.

13.0   Background papers:

13.1   None.

Blackpool Council: Risk Services

Risk Services Quarter Two Report
1st July to 30th September 2016

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Risk Services Quarter Two Report – 2016/2017

1.   Second Quarter Summary

Service Developments

1.1   *Internal Audit*

There have been some staffing changes in the internal audit team with Lisa Hughes, Auditor, leaving the Council and Desmond O'Neill, who was on a temporary contract as an Auditor, made permanent.

Internal audits that have been scoped in the quarter and/or fieldwork underway include:

- Adult Social Care Safeguarding Compliance
- Staff Time Recording
- Cyber Security
- Adult Establishment Visits
- Budgetary and Financial Management
- Blackpool Museum Project
- Carbon Reduction Commitment Scheme
- Flood Management
- Direct Payments
- Cost of External Placements
- Safeguarding (Adults) Compliance
- Placement Orders and Legal Costs
- Framework-I
- Treasury Management

Details of the scope and final outcome for each of the above audits will be reported to Audit Committee in the Risk Services quarterly report once the fieldwork has been completed and draft report agreed.

The internal audit team have agreed an audit plan with the newly formed Audit Committee for Blackpool Transport Services and will be undertaking work for this wholly owned company this financial year.

1.2   *Corporate Fraud*

The team are currently working to ensure that the Council is prepared for the upcoming National Fraud Initiative exercise which matches data over a wide range of systems with a number of public bodies. The required reports are in the process of being prepared and we expect the matches to be received in January.

The team have been involved in the preparation for the Office of the Surveillance Commissions inspection of the Council's use of the Regulation of Investigatory Powers Act (RIPA) 2000 which took place in August. The results from the inspection were positive in terms of direction of travel and the Corporate RIPA Group is currently preparing an action plan to address the recommendations made.

The team have arranged and also attended a two day training course on the use of the Police and Criminal Evidence Act (PACE) and Investigatory Interviews. Two training courses were arranged and were opened up to colleagues across the Council who work in enforcement roles and may need to undertake an interview under caution.

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1.3 *Risk and Resilience*

Neil Williams, one of the Council's Risk and Resilience Officers, who specialised in emergency planning, left the Council to take on the emergency planning role at Blackpool NHS Trust. The Council is now working with the Trust to develop a partnership arrangement for emergency planning, which helps retain Neil's experience and increases resilience across both organisations. Work is underway to implement this proposal and it is intended that the full service will be operational by January.

The team have arranged two training sessions in the quarter, one relating to events risk management and the other around children's social care risk management. The lessons learned at these sessions should help the Council ensure that robust risk management arrangements are in place in these specialist areas.

The team supported the Queen's Park Demolition risk management group with a successful demolition taking place in July.

1.4 *Health and Safety*

The Health and Safety Team has now co-located with the rest of Risk Services which will help with integration with the wider team. Steps are being taken to identify ways in which the services can work more closely together and one of the first developments is a review of how health and safety, risk management and insurance data is presented to services to help ensure that managers receive an overarching position statement.

The team continues to review the use of Google Drive which is the platform used to communicate the service provided to schools. The use of the site has proved successful with 5,967 'hits' in 2015/2016 from school staff.

2. Performance

Risk Services Performance indicators

| Performance Indicator (Description of measure)	2016/17 Target	2016/17 Actual
Professional and technical qualification as a percentage of the total.	85%	78%

Internal Audit Team performance indicators

Performance Indicator (Description of measure)	2016/17 Target	2016/17 Actual
Percentage audit plan completed (annual target).	90%	36%
Percentage draft reports issued within deadline.	96%	85%
Percentage audit work within resource budget.	92%	90%
Percentage of positive satisfaction surveys.	85%	89%
Percentage compliance with quality standards for audit reviews.	85%	86%

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Risk and Resilience Team performance indicators

Performance Indicator (Description of measure)	2016/17 Target	2016/17 Actual
Percentage of Council service business continuity plans up to date.	90%	97%
Percentage of risk registers revised and up to date at the end of the quarter.	90%	100%
Number of risk and resilience training and exercise sessions held (annual target).	6	4
Number of trained Emergency Response Group Volunteers (for monitoring purposes only – responsibility lies with Adult Social Care)	60	50
Percentage of property risk audit programme completed (annual target).	90%	40%

In support of the 97% of business continuity plans up to date by the end of the quarter the following graph shows a breakdown by directorate:
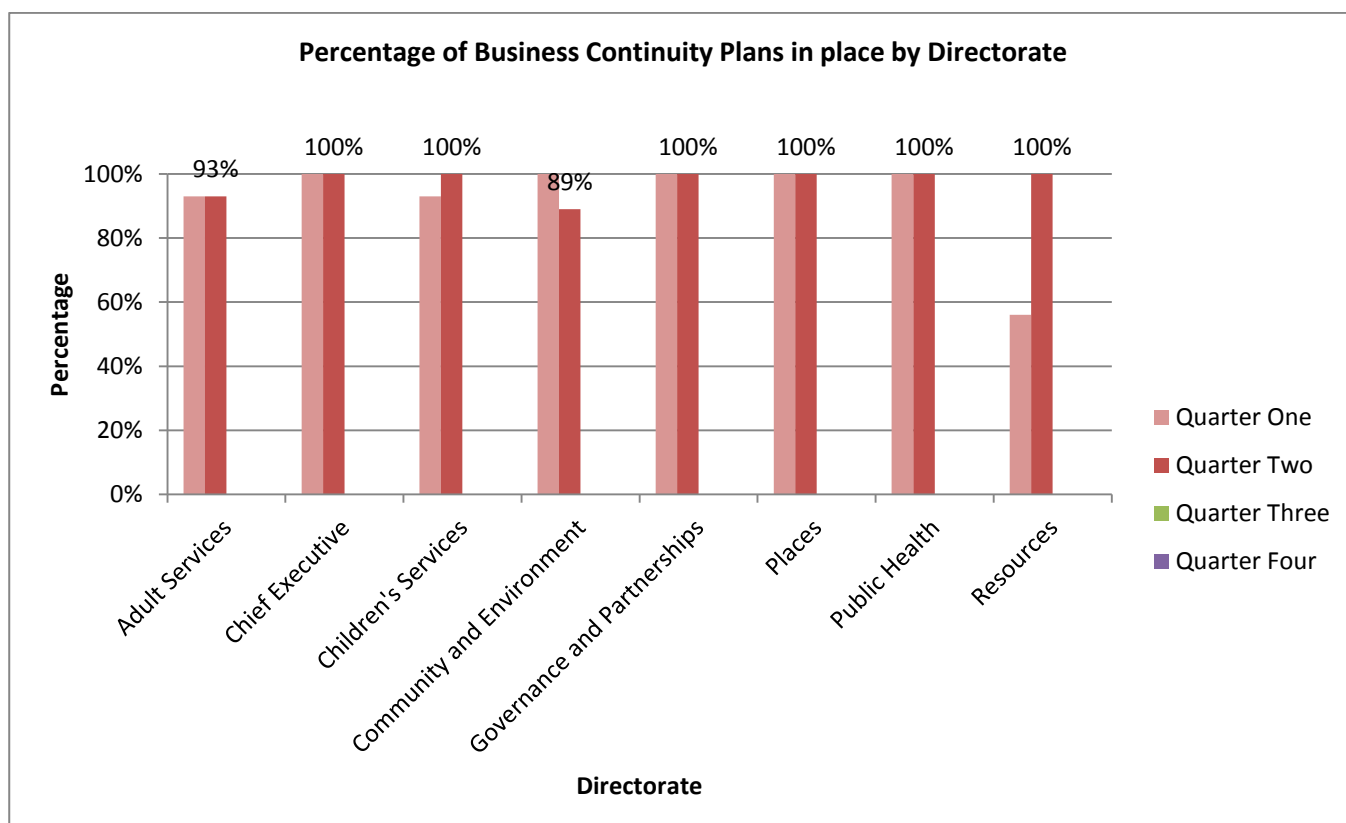

All Council services now have a business continuity plan in place but the following services plans are now out of date:

Directorate	Plan which requires updating
Adult Services	• Homecare

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Risk Services Quarter Two Report – 2016/2017

Community and Environmental	• Coastal and Environment • Waste Management

In support of the 100% of risk registers revised and up to date by the end of the quarter the following graph shows a breakdown by risk management group:
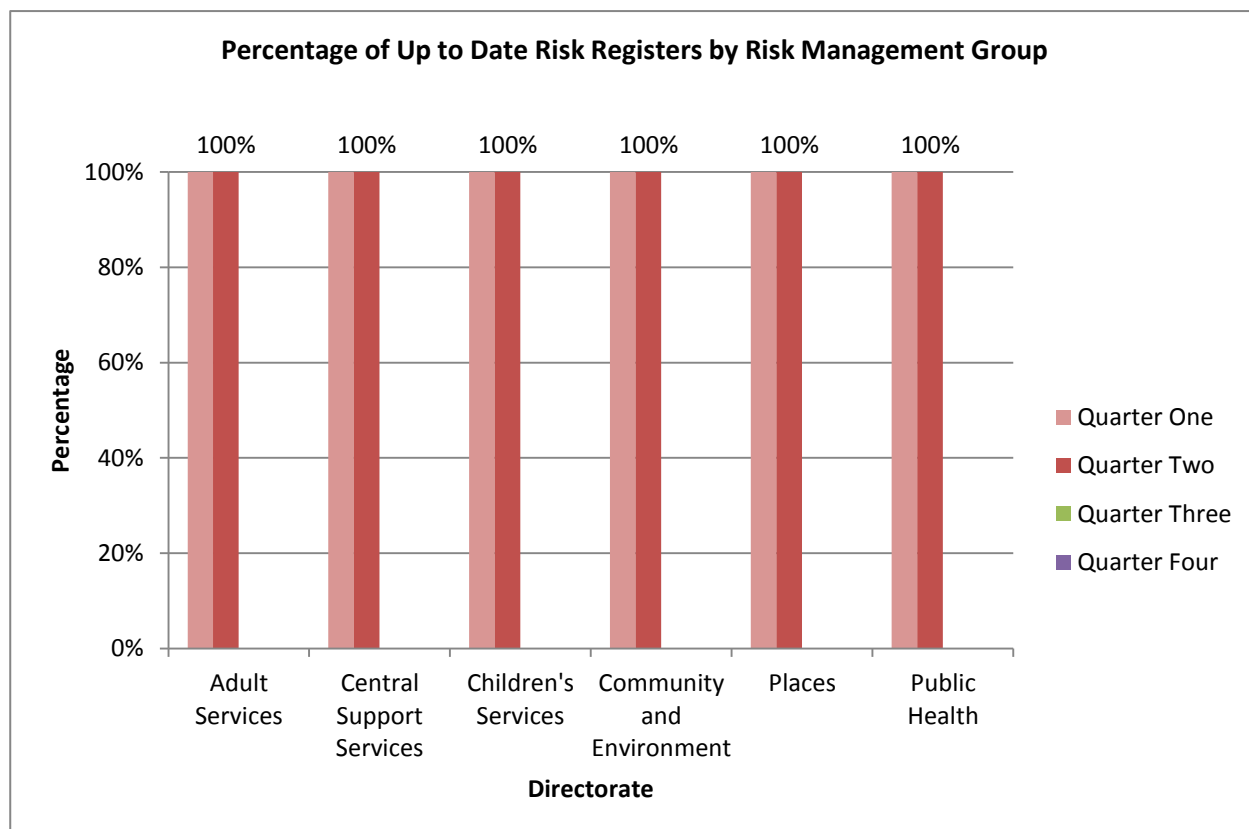
Health and Safety

| Performance Indicator (Description of measure)	2016/17 Target	2016/17 Actual
RIDDOR Reportable Accidents for Employees	0	1
Training Delivered to quarterly plan	100%	100%

Corporate Fraud Team performance indicators

Performance Indicator (Description of measure)	2016/17 Target	2016/17 Actual
% of overall Council employees completed i-pool fraud awareness course.	50%	8.77%

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Risk Services Quarter Two Report – 2016/2017

The completion of the fraud awareness course is not yet mandatory and it is being promoted through staff newsletters, the Hub and the Senior Leadership Team.

The graph below shows completion rate by directorate:

Percentage of staff completing the fraud awareness training by Directorate

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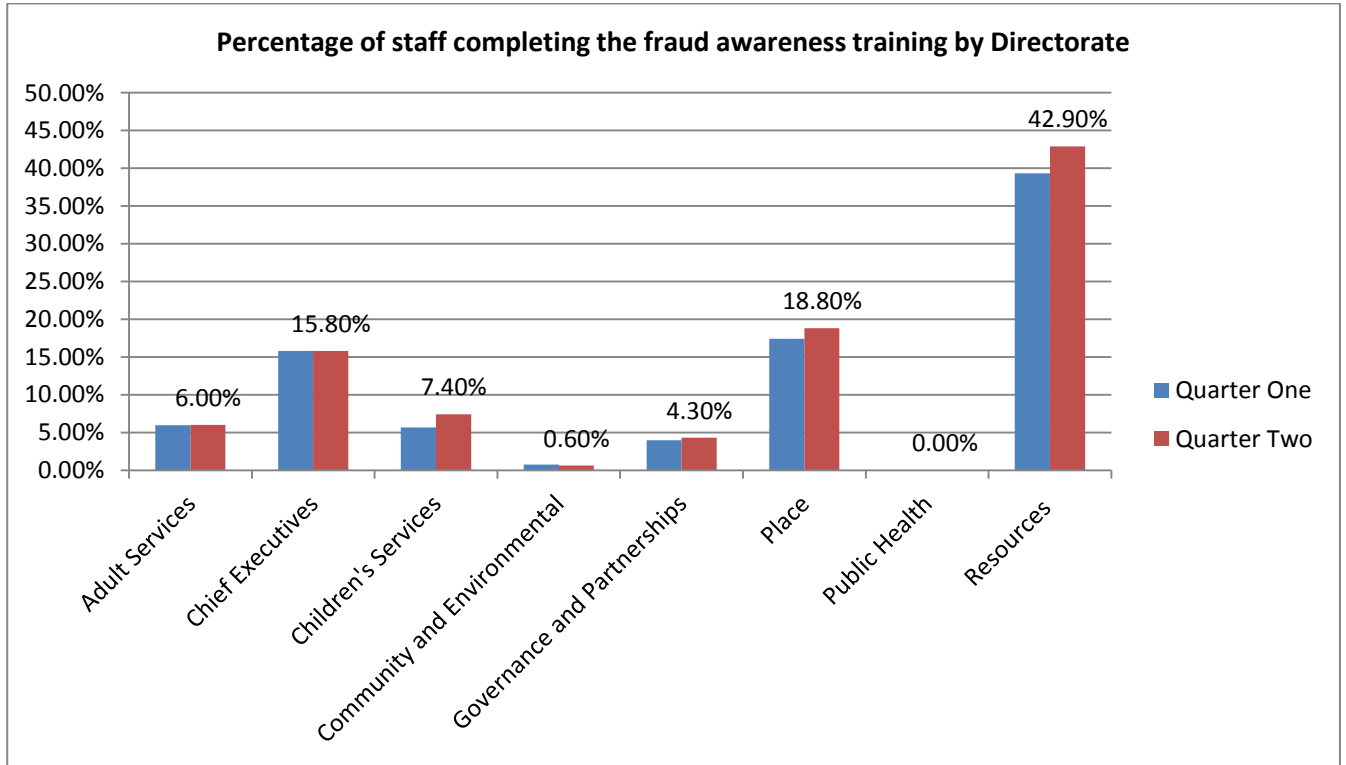
Risk Services Quarter Two Report – 2016/2017

Corporate Fraud Team Statistics

CORPORATE FRAUD STATISTICS - 2016/2017	Number of Cases Brought Forward	Total Number of Referrals Received	Case Closures		Total Value of Fraud Proven / Error Identified	Action Taken on Closed Cases					Number of Cases Currently Under Investigation
			Fraud/Error Proven	No Fraud/Error Identified		No Further Action	Recommendation	Disciplinary	Administrative Penalty	Prosecution	
Type of Fraud											
Council Tax - Single Person Discount	2	26	1	5	£352.55	6	0	0	0	0	22
Council Tax Reduction (CTR)	2	22	1	3	£5,257.63	4	0	0	0	0	20
Business Rates	0	0	0	0	£0.00	0	0	0	0	0	0
Procurement	1	3	0	2	£0.00	2	0	0	0	0	2
Fraudulent Insurance Claims	22	27	0	23	£0.00	23	0	0	0	0	26
Social Care	1	0	0	0	£0.00	0	0	0	0	0	1
Economic & Third Sector Support	0	0	0	0	£0.00	0	0	0	0	0	0
Debt	0	0	0	0	£0.00	0	0	0	0	0	0
Pension	0	0	0	0	£0.00	0	0	0	0	0	0
Investment	0	0	0	0	£0.00	0	0	0	0	0	0
Payroll & Employee Contract Fulfilment	0	1	0	0	£0.00	0	0	0	0	0	1
Expenses	0	0	0	0	£0.00	0	0	0	0	0	0
Abuse of Position - Financial Gain	2	0	0	1	£0.00	1	0	0	0	0	1
Abuse of Position - Manipulation of Financial or Non-Financial Data	1	1	0	2	£0.00	1	1	0	0	0	0
Fraudulent Cashing of Housing Benefit Cheque	0	0	0	0	£0.00	0	0	0	0	0	0
Disabled parking concessions	0	0	0	0	£0.00	0	0	0	0	0	0
National Fraud Initiative 2016/2017	0	0	0	0	£0.00	0	0	0	0	0	0
Totals:	**31**	**80**	**2**	**36**	**£5,610.18**	**36**	**2**	**0**	**0**	**0**	**73**

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Risk Services Quarter Two Report – 2016/2017

3.   <u>Appendix A: Performance & Summary Tables for Quarter Two</u>

Internal Audit reports issued in period

Directorate	Review Title	Assurance Statement
Community and Environmental	Driving at Work	**<u>Scope</u>** The scope of our audit was to review: • The awareness of and level of compliance with the requirements set out in the Driving at Work handbook in service areas where staff drive Council vehicles. • Whether appropriate risk assessments have been carried out in service areas where staff drive Council vehicles. **<u>Overall Opinion and Assurance Statement</u>** We consider that the controls in place are inadequate with a number of risks identified and several changes necessary. Whilst we recognise that significant progress has been made to develop and implement the Driving at Work Handbook our testing revealed several lapses in compliance with the controls in relation to completion of Daily Vehicle Inspection Reports, Fitness to Drive declarations, risk assessments, licence checks being up to date, all Council fleet drivers being identified and signed confirmation that the Handbook has been read.
Governance and Partnerships	Ward Budgets	**<u>Scope</u>** The scope of the audit was to review: • The policies and procedures in place for ward funding budgets and assess whether these are effective. • The level of compliance with the policies and procedures in place. **<u>Overall Opinion and Assurance Statement</u>** We consider that the controls in place are adequate with some risks identified and some changes necessary. Our testing revealed a number of lapses in compliance with the controls. However, we recognise that the new guidance has yet to be in place for a full year and there may be some need to re-emphasise the new guidance to Councillors.

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		Risk Services Quarter Two Report – 2016/2017
Directorate	**Review Title**	**Assurance Statement**
Place	Beach Patrol	**Scope** The scope of our audit was to review: • The identification of the risks associated with the current level of provision of the Beach Patrol; and • Assess the impact on risks of a reduction or cessation of the Beach Patrol. **Overall Opinion and Assurance Statement** Risks in relation to the seafront and the beach have been identified, however further potential controls to address high priority risks have not been subject to a full financial and risk evaluation and therefore inadequately assessed to inform decision making. If the Council is to consider a reduction in the level of the Beach Patrol service, then a full identification of the impact on identified risks would be required. Potential increased risks, including litigation and reputational damage, from a possible cessation of the Beach Patrol service have been identified.
Place	Blackpool Housing Company	**Scope** The scope of our audit was to review: • The effectiveness of the governance arrangements. • How the governance arrangements ensure alignment with Council priorities. **Overall Opinion and Assurance Statement** A number of controls have been implemented to ensure that Blackpool Housing Company has adequate controls in place to facilitate effective governance. However, at this stage in the company's development, further controls are required to enhance and strengthen the arrangements in place.
Resources	Blue Badge Awards	**Scope** The scope of the audit was to review the Blue Badge application procedures covering legislative requirements and local policy and discretions. **Overall Opinion and Assurance Statement** We consider that the controls in place are adequate with some changes necessary. The development of the new management system and opening of the online gateway for eligibility information provides an opportunity to further enhance controls. Our testing revealed minor lapses in compliance with the controls.

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Risk Services Quarter Two Report – 2016/2017		

Directorate	Review Title	Assurance Statement
Resources	Carbon Reduction Scheme	**Scope** This compliance based review of the Council's carbon reduction commitment submission for 2015/2016 was based on guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). There is an annual requirement for an internal audit of the scheme to be carried out and copies of associated audit reports should be provided in the authorities evidence pack. The audit focused on a number of control objectives including that: • Information contained in the Annual Report is accurate and timely, • All fuel consumption is accurately reported using correct conversion rates and includes core, residual and other fuel types, • Estimated bills are monitored to ensure at least two meter reads are taken in a six month period (to avoid uplifts in carbon allowance purchases associated with estimated bills), • Issues are logged and updated with outcomes to support the evidence pack, • The cost of carbon allowances is budgeted for and accounted for correctly in the Council's financial system. **Overall Opinion and Assurance Statement** We consider that the controls in place for the Carbon Reduction Commitment Scheme are good. Most risks have been identified and assessed and we consider that only minor control improvements are required. Our testing revealed a satisfactory level of compliance with the controls.

Progress with Priority 1 audit recommendations

On the 10th March 2016 KPMG presented a report to Audit Committee on Subcontracting Arrangements specifically related to the funding agreement in place with the Skills Funding Agency. As a result of this audit four medium risk and fifteen low risk recommendations were made. The Audit Committee asked Internal Audit to follow up implementation of the recommendations. This follow-up has now taken place and each of the identified actions has now been addressed.

A detailed review of the implementation of internal audit recommendations has been undertaken this quarter to evidence where recommendations have been actioned and identify any outstanding recommendations.

In the first half of the financial year a number of recommendations have now been signed of as being implemented and these include for the following audits:

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- Anchorsholme Coast Protection Scheme.
- Compliance with Corporate Procedures.
- Ability to Transform.
- Physical Activities.
- Local Education Partnership.
- Lancashire Waste Partnership.
- Delivery of Savings Targets.
- Catalogue Prices.
- CCTV.
- Lightpool Project.

There are a number of recommendations which have passed their due date however evidence has been provided that work is in progress to address these and revised target dates have been agreed with the Chief Internal Auditor. These include:

- E-invoicing for Property Services.
- Integration of the People Directorate contracts with the Corporate Contract Register.
- Thematic Business Continuity Plan for Property.
- Co-location of Licensing Policy and Enforcement Team.
- Children's Services Improvement Plan Progress.

There are a number of follow-ups which are due and we are currently waiting for a response from the relevant Head of Service these include:

- Executive Decisions.
- Leaving Care Service.

The Regulation of Investigatory Powers Act 2000

In line with best practice it has been agreed that the Council will report to the Audit Committee the number of RIPA authorisations undertaken each quarter, which enables the Council to undertake directed and covert surveillance. Between July and September 2016 the Council authorised no RIPAs.

Insurance claims data

We are currently reviewing the way in which we report insurance data. A review of the current process has identified some differences between the claims handling system and the Council's financial management system. A full reconciliation is going to be undertaken over the next quarter to ensure that accurate figures are reported.

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Report to:	**AUDIT COMMITTEE**
Relevant Officer:	Iain Leviston, Manager, KPMG
Date of Meeting	24 November 2016

ANNUAL AUDIT LETTER 2015/2016

1.0 **Purpose of the report:**

1.1 To consider the Annual Audit Letter 2015/2016.

2.0 **Recommendation(s):**

2.1 To consider the report, asking relevant questions and making any recommendations that are considered appropriate.

3.0 **Reasons for recommendation(s):**

3.1 To enable the Committee to consider the key findings from the External Auditor's 2015/2016 audit of the Council and to make appropriate recommendations.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council?   No

3.2b Is the recommendation in accordance with the Council's approved budget?   Yes

3.3 Other alternative options to be considered:

To not receive the report, but this would prevent the Committee from effective monitoring of the External Auditor's key findings from the 2015/2016 audit of the Council.

4.0 **Council Priority:**

4.1 The relevant Council Priority is:

- "The economy: Maximising growth and opportunity across Blackpool"

5.0 **Background Information**

5.1   The External Auditor's Annual Audit Letter summarises the key issues arising from the 2015/2016 audit of Blackpool Council. The document is addressed to the Council but it is intended that it is used to communicate issues to external stakeholders, including members of the public. The letter is used to highlight areas of good performance and also areas where further work is required to achieve best practice.

5.2   The Annual Audit letter is attached at Appendix 5(a).

Does the information submitted include any exempt information?   No

List of Appendices:
Appendix 5(a): Annual Audit Letter 2015/2016.

6.0   Legal considerations:

6.1   None

7.0   Human Resources considerations:

7.1   None

8.0   Equalities considerations:

8.1   None

9.0   Financial considerations:

9.1   None

10.0   Risk management considerations:

10.1   None

11.0   Ethical considerations:

11.1   None

12.0   Internal/ External Consultation undertaken:

12.1   None

13.0   Background papers:

13.1   None

KPMG

Annual Audit Letter 2015/16

Blackpool Council

—

October 2016

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Timothy Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Document Classification: KPMG Confidential

This Annual Audit Letter summarises the outcome from our audit work at Blackpool Council in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

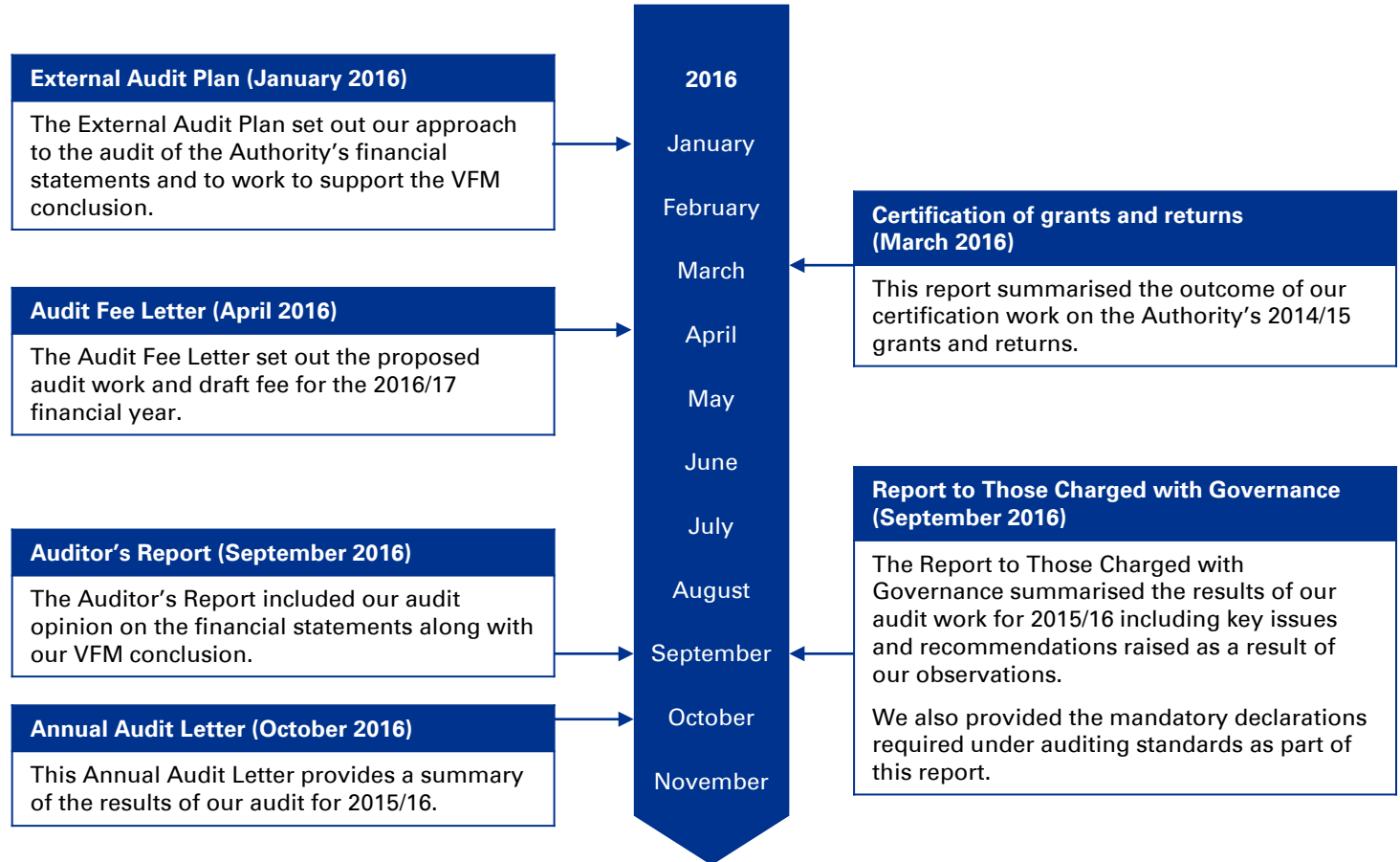|	
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 29 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Authority's Group, which consists of the Authority itself and its subsidiary companies. We deemed Blackpool Transport Services Limited, Blackpool Entertainment Company Limited and Blackpool Operating Company Limited to be significant components of the Group for audit purposes.
Financial statements audit	Our audit did not identify any material adjustments. We did identify a small number of issues that have been adjusted by management as they do not have a significant effect on the financial statements.
	In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* ('the Code'). We understand that the Authority addressed these where significant.
VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 29 September 2016. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.
	To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.
VFM risk area	We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.
	Our work identified the following significant matter:
	— **Financial resilience:** The Authority's medium term financial plan covers the period to 2021/22. It identifies the funding sources available to the Authority each financial year, the cost base brought forward from the previous year, and the inflationary pressures on this cost base. The assumptions driving this element of the plan were reviewed, and considered to be reasonable.

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Headlines (cont.)

We have issued our certificate to confirm the completion of our audit responsibilities for the 2015/16 audit year.	

VFM risk area (cont.)	The other significant element of the plan is the annual required savings, that reduce the annual costs facing the Authority and bring the expenditure for the year into balance with the funding available. These savings requirements were £14.6 million in 2017/18, £4.8 million in 2018/19, and total £34.9 million by 2021/22. The Authority has delivered 100% of its savings plans for 2015/16, and has firm plans in place to deliver 100% of the 2016/17 savings requirements as well. These are also on schedule to be delivered. On this basis, we believe that the Authority's plans demonstrate that appropriate arrangements are in place to deliver value for money.
Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
Audit recommendations	We raised no recommendations as a result of our 2015/16 audit work.
Certificate	We issued our certificate on 19 October 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.
Audit fee	Our fee for 2015/16 was £110,153, excluding VAT. This is consistent with the planned fee notified to you in April 2015. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter in October 2015.

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External Audit Plan (January 2016)

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Audit Fee Letter (April 2016)

The Audit Fee Letter set out the proposed audit work and draft fee for the 2016/17 financial year.

Auditor's Report (September 2016)

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion.

Annual Audit Letter (October 2016)

This Annual Audit Letter provides a summary of the results of our audit for 2015/16.

2016

January

February

March

April

May

June

July

August

September

October

November

Certification of grants and returns (March 2016)

This report summarised the outcome of our certification work on the Authority's 2014/15 grants and returns.

Report to Those Charged with Governance (September 2016)

The Report to Those Charged with Governance summarised the results of our audit work for 2015/16 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Appendix 2: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

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To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our final fee for the 2015/16 audit of the Authority was £110,153, which is in line with the planned fee.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

Other services

We are currently completing a number of certifications for grant claims and reports that fall outside of the Public Sector Audit Appointment's certification regime. Details will be given in our *Certification of grants and returns report* in January 2017.

We have also engaged with Blackpool Transport Services to provide various tax advice and compliance services; the value of the contracts awarded since the last Annual audit letter was issued in October 2015 are £20,150 excluding VAT, although certain of these services run for up to a three year period. This work was not related to our responsibilities under the Code of Audit Practice.

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Report to:	**Audit Committee**
Relevant Officers:	Tracy Greenhalgh, Chief Internal Auditor
Date of Meeting	24 November 2016

NATIONAL FRAUD INITIATIVE REPORT 2016

1.0   Purpose of the report:

1.1   To consider an overview of the outcome of the 2014-2016 National Fraud Initiative exercise and lessons learned from the process.

2.0   Recommendation(s):

2.1   The Audit Committee are asked consider the findings of National Fraud Initiative Report 2016, ask relevant questions and make any recommendations that are considered appropriate.

3.0   Reasons for recommendation(s):

3.1   To ensure that the Council can continue to provide a robust approach to fraud prevention and detection.

3.2a   Is the recommendation contrary to a plan or strategy adopted or approved by the Council?   No

3.2b   Is the recommendation in accordance with the Council's approved budget?   Yes

3.3   Other alternative options to be considered:

N/a

4.0   Council Priority:

4.1   The relevant Council Priorities are

•"The economy: Maximising growth and opportunity across Blackpool"
•"Communities: Creating stronger communities and increasing resilience"

5.0   Background Information

5.1   The National Fraud Initiative (NFI) Report 2016 focused on the outcomes from the National Fraud Initiative data matching exercise to help prevent and detect fraud, overpayments and errors.

5.2   Data for the National Fraud Initiative is provided by 1,300 participating organisations from across the public and private sectors. The data is cross matched and also compared to key data sets provided by other participants, including government departments. The organisations that participate in the National Fraud Initiative are responsible for following up and investigating the matches and identifying fraud and overpayments.

5.3   For the National Fraud Initiative exercise which ran between April 2014 and March 2016 £222 million was identified as fraud and error.

5.4   In terms of Blackpool Council the details of the outcomes were as follows:

Data Match	No of Cases Fraud or Error	Value
Housing Benefits to Student Loans	8	£47,589.34
Housing Benefits to Pensions	1	£8,688.08
Housing Benefits to Housing Benefits	4	£6,098.19
Private Residential Care Homes to DWP Deceased	2	£8,736.57
Council Tax Reduction Scheme to Pensions	3	£4,553.16
Duplicate Records by Amount and Creditor Reference	2	£45,238.67
Totals	**20**	**£120,904.01**

Does the information submitted include any exempt information?   No

List of Appendices:

Appendix 6(a): National Fraud Initiative Report 2016.

6.0   Legal considerations:

6.1   The procedures in place for fraud investigation help ensure that the Council's Corporate Fraud Team operates within the correct legislation and working practices.

7.0 **Human Resources considerations:**

7.1 The National Fraud Initiative programme requires staff from a range of Council services to be involved in the initial checks of the data matches. Therefore, only recommended matches are routinely checked due to resource restrictions across the Council.

8.0 **Equalities considerations:**

8.1 The Council's Fraud Response Plan helps ensure that all investigations are carried out objectively and fairly.

9.0 **Financial considerations:**

9.1 The robust investigation of potential fraud contributes to the protection of the Council's assets.

10.0 **Risk management considerations:**

10.1 When undertaking the National Fraud Initiative exercise the focus is on high risk / recommended matches to target resource appropriately.

11.0 **Ethical considerations:**

11.1 None.

12.0 **Internal/ External Consultation undertaken:**

12.1 None.

13.0 **Background papers:**

13.1 None.

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Cabinet Office

National Fraud Initiative

4 November 2016

Cabinet Office
70 Whitehall
London SW1A 2AS

Any enquiries regarding this publication should be sent to us at nfiqueries@cabinetoffice.gov.uk
This document is also available from our website at: GOV.UK

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Foreword

Chris Skidmore MP Parliamentary Secretary (Minister for the Constitution)

Marcus Jones MP Parliamentary Under Secretary of State (Minister for Local Government)

Every time the Government spends money or provides benefits and services, it is vulnerable to fraud and error. Estimates show the combined losses from central and local government to be between £20 billion and £49 billion every year.

We are combating this in a number of ways, including: HMRC's work on tackling everything from tax evasion to non-compliance; the Department for Work and Pensions' innovative use of data to identify fraud and error in benefits in real time; the Student Loan Company's use of new techniques to spot fraudulent applications; and the Department of Health's proactive campaign to deal with a range of fraud in prescriptions, dental treatment and health tourism.

In March, the Government also published the sector-produced *Local Government Counter Fraud and Corruption Strategy*. This document sets out a series of recommendations, which we would encourage all councils to follow, to enhance their capability to tackle fraud.

This is a start; but just a start. We are not complacent; we need to do more right across government and beyond.

Cabinet Office Ministers, taking a lead, established a centre of expertise within the Cabinet Office; the Fraud, Error and Debt team (FEDs). This centre of expertise leads on a number of innovative policies and initiatives across Government, including working with individual departments to reduce fraud loss, increase capability through standard setting and improve access to quality data and data analytics.

Recognising the National Fraud Initiative (NFI) is a vital tool in cracking down on fraud, it was brought into the FEDs remit specifically to bolster its capabilities and use even further. The NFI is highly successful at what it does, matching an extensive range of data from almost 1,300 organisations from across the UK to help prevent and detect fraud. Over the years it has enabled participants to identify fraud and overpayments totalling in excess of £1.39 billion.

Local government remains a key stakeholder in the NFI and we urge councils across the country to take full advantage of the information it provides by prioritising and following up the matches quickly. Using the NFI effectively will enable local government to identify fraudulent individuals, safeguard public funds and protect vital public services. The information is there to be used, in order to ensure value for money we strongly encourage you make full use of it.

This isn't just about saving money. The report has been expanded and now includes two new data requirements on social housing waiting lists and the council tax reduction scheme. This will help councils spot and prevent fraudulent tenancies before they occur, ensuring that only those families which are entitled and in need are provided homes.

This year, the NFI launched a new fraud prevention tool, AppCheck, to allow the data it holds to be used, supporting fraud prevention efforts. It also has FraudHub software that provides flexibility, allowing smaller groups to use this product to better target their local fraud risks. Offering a flexible range of options for customers aligns with our published commitment to identifying ways to reduce losses in all public services.

The report identifies around £200 million of potential fraud, overpayments and error in England, over a range of different types of fraud. This is the just the tip of the iceberg and should serve as a wake-up call to the entire public sector to support us to do much more to ensure taxpayers' money is spent wisely and carefully. We ask public and private organisations to engage with us and help us spread the word and develop the tools of the future.

Chris Skidmore MP, Parliamentary Secretary (Minister for the Constitution)

Marcus Jones MP, Parliamentary Under Secretary of State (Minister for Local Government)

4 November 2016

Introduction

Summary

This report focuses on the outcomes from the National Fraud Initiative (NFI) data matching exercise to help prevent and detect fraud, overpayments and errors.

Data for the NFI is provided by some 1,300 participating organisations from across the public and private sectors. The data is cross matched and also compared to key data sets provided by other participants, including government departments. The NFI also works with public audit agencies in all parts of the UK and key data sets provided by government departments to prevent and detect fraud.

The organisations[1] that participate in the NFI are responsible for following up and investigating the matches, and identifying frauds and overpayments.

This report sets out the results of the NFI in the period 1 April 2014 to 31 March 2016 and follows on from our last report published in June 2014[2].

In England, fraud, overpayments and errors [3] [4] amounting to £198 million have been identified and prevented. The NFI also identified £24 million of fraud, overpayments and error in Scotland, Wales and Northern Ireland, bringing total outcomes since the last report to £222 million. This represents a slight fall from the £229 million reported for the period 1 April 2012 to 31 March 2014, although changes to some of the estimation methodologies mean this is not a true like for like comparison.

Since it began, the NFI has enabled the participants to detect and prevent fraud, overpayments and errors totalling £1.39 billion.

The main categories of fraud identified by the NFI in England relate to:
- £85 million of pension fraud and overpayments;
- £37 million of fraudulent or wrongly received, council tax single person discount (SPD) payments; and
- £39 million of welfare benefit fraud[5] and overpayments.

The exercise also produced the following significant results in England:
- 54 properties were recovered for social housing;

---

[1] Mandatory organisations for the 2014/15 exercise included councils, NHS bodies, local police bodies and other local public bodies in England, as specified in Schedule 2 of the Audit Commission Act 1998. Other voluntary organisations that took part included NHS foundation trusts, government departments, private sector pension schemes and housing associations.

[2] Reporting outcomes recorded during the period 1 April 2012 to 31 March 2014.

[3] The figures used throughout this report for fraud, overpayments and recoveries include fraud and error detected plus estimated future losses prevented. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching. A more detailed explanation is included in Appendix 1.

[4] Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up and under 0.5 rounded down.

[5] This includes housing benefit, state benefit and council tax reduction scheme overpayments.

- 52 employees were dismissed or asked to resign because they had no right to work in the UK;
- 535 people were prosecuted;
- 726 false applications were removed from housing waiting lists following a second pilot exercise; and
- 23,063 blue badges and 97,064 concessionary travel passes were cancelled.

Most public bodies have sound arrangements in place for managing their participation in the NFI, but the NFI and public bodies should work together to understand how the matching can be used to maximise the amount of fraud and error overpayments found.

- Some participants do not make best use of the matches and or the tools within the web application to help them identify high-risk matches linked to local risks.
- Results from traditional housing related matches have been disappointing, so the NFI team will work in partnership with housing providers to understand the reasons for this, as well as monitoring new housing policies as they are implemented and researching new matching techniques.

The NFI has continued to develop the NFI data matching function to address emerging fraud risks and fraud prevention and will continue to do so.

- NFI tackled personal budget fraud for the first time.
- The NFI product range has been extended to incorporate more flexible options such as FraudHub and AppCheck, a preventative tool for point of application checking.
- The AppCheck preventative service helps organisations to stop fraudulent applications from being successful. This is valuable at any point in time, but it is particularly important in a period when local authorities report to the NFI that overall capacity to tackle fraud and error has been falling.
- AppCheck and the flexible NFI tools are designed to allow integration into existing systems' internal controls to facilitate more efficient and unified ways of working.

Recommendations

All public sector participants should ensure they maximise the benefits of their participation in the NFI. In particular, they should:

- consider whether it is possible to make better use of matches, after reviewing the suggestions presented in Table 4, page 36;
- use the NFI matches in conjunction with alternative matching services from other providers; and
- consider integrating the NFI prevention tool (AppCheck) into existing systems' internal controls to help better prevent fraudulent applications being successful.

The Cabinet Office will look to maintain or increase the benefits of the NFI by working with public sector participants to ensure it continues to meet their needs. This will include work with:

- participants to evaluate the value of integrating the NFI preventative and flexible tools into internal controls to improve fraud prevention and detection;
- Department for Work and Pensions and local authorities to agree the arrangements for effective follow up of subsequent housing benefit matches released through the NFI;
- Department for Communities and Local Government to ensure local government bodies utilise the NFI fraud prevention data matching to support delivery of their anti-fraud strategies and maximise the benefits the NFI matches offer; and
- housing providers, including housing associations, to understand why the levels of housing fraud detected through the NFI are minimal yet tenancy fraud is estimated to be the second largest area of fraud loss in local government.

We will also publish, following consultation, an NFI strategy for the period 2016 to 2020. The strategy will outline our commitment to embracing new technology, seeking to embed the NFI into internal controls, developing performance metrics to better inform our continuous improvement strategy and undertaking a full review of the NFI. The latter will include a review of:

- right to buy fraud, in conjunction with external parties, that will consider implementation of relevant new policies, seek to understand any associated fraud risks with the aim of identifying how the NFI matching can better assist housing providers; and
- immigration fraud to determine why there has been a reduction in the number of illegal working cases found through the NFI.

Details of our future plans are set out in of this report.

Chapter 1 - Introduction

This chapter explains the NFI's role in helping local public and private sector organisations to prevent and detect fraud.

1. The National Fraud Authority[6] issued their final Annual Fraud Indicator report in 2013, estimating annual losses from public sector fraud to be £20.6 billion.

2. Putting in place effective controls and initiatives as part of an anti-fraud strategy to prevent and detect fraud is key to tackling the risk of fraud. Doing this prevents losses and allows the funds to go to those that are entitled.

3. The NFI data matching plays an important role in protecting the public purse against fraud risks by helping organisations to identify potential cases of fraud. For nearly two decades it was operated by the Audit Commission but, recognising the importance of this work in the prevention and detection of fraud, the Cabinet Office elected to take ownership of this service, rather than let the NFI cease when the Audit Commission closed in March 2015.

4. The use of data matching services, such as the NFI, is only one element of an effective counter-fraud strategy. It must be underpinned by a thorough understanding of the fraud risks that an organisation faces, to ensure effort is focused in the right places. This should be accompanied by access to capability to both react to issues of fraud and counter the threat by improving the control framework to ensure effective prevention and detection. It is also important to have strong anti-fraud cultures and fraud policies and procedures that emphasise that fraud is unacceptable.

5. The integration of the NFI into the Fraud, Error, Debt and Grants team in Cabinet Office allows us to better link in central government departments, thus increasing the benefits that the NFI can realise from the collaborative efforts of public and private sector organisations to fight fraud. Integration in this way also aligns the NFI with the wider work of the Cabinet Office team on building capability across central Government and improving access to data and analytical products.

6. The Fraud and Error part of the Fraud, Error, Debt and Grants team is working with departments and other public bodies to identify and reduce fraud and error across central Government. It also supports activity at a Local Government level, working with the Department for Communities and Local Government, and through the direct provision of the NFI. This focuses on the following:

    •   working with fraud specialists across Government to set and support the adoption of standards for fraud activity;
    •   working across Government to develop professional capability standards and help public bodies get access to counter-fraud capability
    •   developing a Government Counter-Fraud Profession
    •   increase Government understanding of the fraud risks that it faces and the potential loss as a result;
    •   developing the data sharing landscape across Government for the detection and prevention of fraud and error;

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[6] The National Fraud Authority closed on 31 March 2014.

- testing new technologies for data sharing and analytics.
- working with public bodies to develop and provide access to data sharing and analytics products to prevent and detect fraud and error (including the NFI);

7. NFI is an important part of the Cabinet Office's work to develop and provide access to data sharing, data matching and analytical products to help those working to counter fraud across Government to identify and reduce loss. Since the NFI became the responsibility of the Cabinet Office, it has sought to build on the valuable work done in this area by the Audit Commission.

8. NFI has been working with central government to increase usage of the product and has added a fraud prevention tool (AppCheck) to the established NFI fraud detection product. This preventative service helps organisations to stop fraud at the point of application, thereby reducing administration and future investigation costs.

9. The ability to prevent fraud should be particularly valuable to local authorities that are considering how they can most efficiently tackle the risk of fraud and error. With AppCheck now available, the focus will be to work with organisations to understand how this can be integrated alongside their existing internal controls to help better target fraud risks at the point of application.

10. This report on the NFI is primarily intended for senior officers, elected members across the public sector and anyone with a focus on fraud prevention and detection. It outlines the results of the NFI across the UK over the last two years, with particular focus on England, as well as outlining our approach for taking the NFI forward.

Chapter 2 - The NFI

This chapter describes the NFI and how it helps protect the public purse.

11. The NFI brings together a wide range of organisations from across the UK to tackle fraud. By using data matching/analytics to compare different datasets across these organisations, the NFI is able to identify potentially fraudulent claims and overpayments.

12. For example, the matching may identify that a person is listed as working while also receiving benefits and not declaring any income. The relevant organisation should then investigate and, if appropriate, amend or stop benefit payments. Appendix 2 includes more examples of the data matches undertaken and why. Chapter 4 provides more information on the levels of fraud detected through the NFI.

13. High levels of fraud detection through the NFI data matching are likely to indicate weaknesses in underlying controls that need to be investigated and strengthened. In contrast, data matching showing little or no fraud and error provides assurance about the effectiveness of controls.

14. It is important to note that a match does not automatically mean fraud. There may be an explanation for a data match that prompts the organisation to update their records and/or improve their systems.

15. Traditionally the NFI has used data on existing claimants, tenants, etc. to detect live fraud in those systems. In the last two years we have extended the NFI so the same principles can now be applied to undertake checks for fraudulent statements on applications. Doing so allows the NFI to help organisations prevent fraud from entering their systems.

16. Delivering all aspects of the NFI services through web applications provides a secure, fast, effective and user friendly mechanism for users while protecting individuals' personal data.

17. The NFI is conducted under statutory powers set out in the Local Audit and Accountability Act 2014[7]. The legislation provides safeguards on the use and disclosure of data, including the requirement for a statutory Code of Data Matching Practice which helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards appropriate to the NFI.

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[7] Local Audit and Accountability Act 2014 Part 6, Schedule 9

Chapter 3 - The NFI UK picture

This chapter describes how all the public audit agencies work in partnership to provide the NFI across the UK
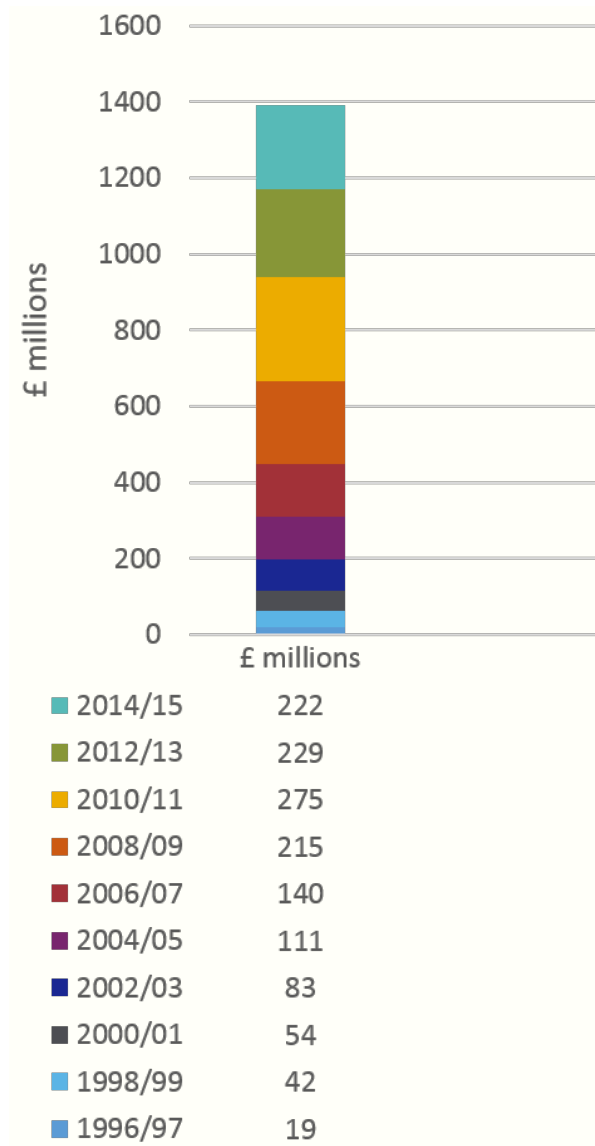
18. The involvement of the public audit agencies in Scotland, Wales and Northern Ireland is a key factor in the success of the NFI. Each national audit agency carries out data matching under its own powers, but uses the NFI's systems, processes and expertise.

19. This enables cross-border matching while also delivering economies of scale, reducing the cost for organisations taking part. Each agency reports on the NFI separately for their geographical area[8].

20. In the period 1 April 2014 to 31 March 2016, £24 million of fraud, overpayment and error has been identified by the NFI in Scotland, Wales and Northern Ireland, in addition to £198 million in England. The aggregate amount of fraud and overpayments found since the NFI first started outside England is £176 million (Figure 1). This comprises:

   • Scotland - £111 million;
   • Northern Ireland - £35 million; and
   • Wales - £30 million.

21. The total fraud, overpayments and errors detected across the UK since the NFI began in 1996 amounts to £1.39 billion (Figure 2).

Figure 1- **Cumulative total for the period 1996 - 2016 outside of England (£176 million)**

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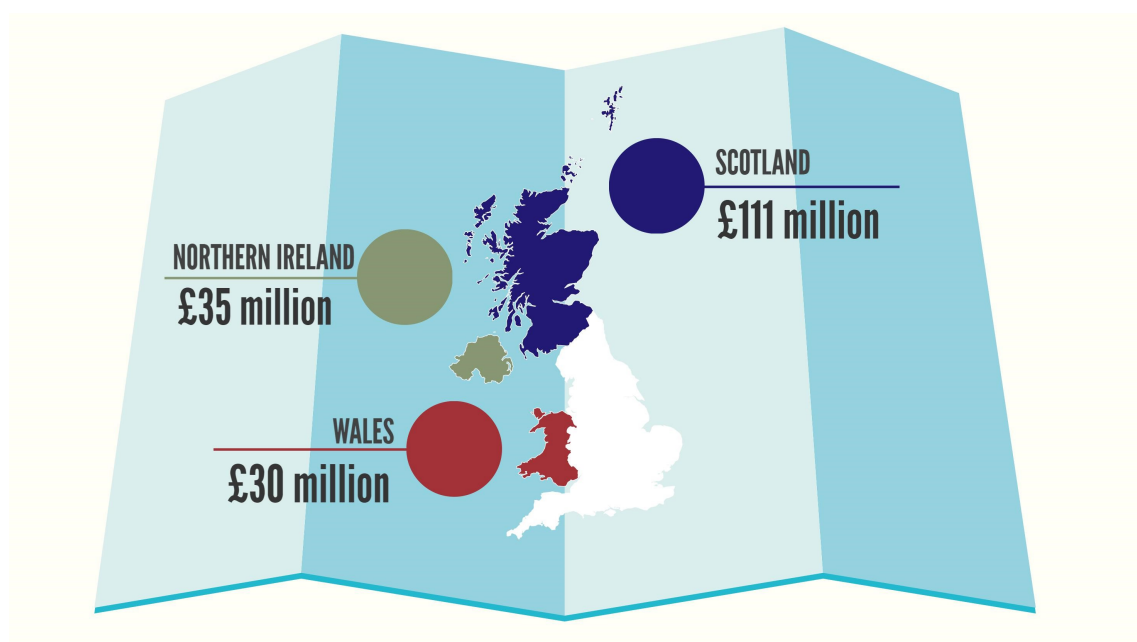
[8] The NFI results in Scotland are available at www.audit-scotland.gov.uk in Wales, at www.wao.gov.uk and in Northern Ireland, at www.niauditoffice.gov.uk.

Figure 2 - **Cumulative outcomes identified across the UK (1996-2016) £1.39 billion**

	£ millions
2014/15	222
2012/13	229
2010/11	275
2008/09	215
2006/07	140
2004/05	111
2002/03	83
2000/01	54
1998/99	42
1996/97	19

Chapter 4 - The NFI in England

This chapter sets out the results of the NFI in England and the successes in tackling key risks (Table 1).

22. Between 1 April 2014 and 31 March 2016 the NFI has identified further fraud, overpayments and errors in England totalling £198 million.

23. The total comprises £65 million of actual fraud and error detected, as well as estimated fraud and error detected and future losses prevented of £133 million (Appendix 1). Estimates are included where it is reasonable to assume that the fraud and error would have continued undetected without the NFI data matching. The estimate of £133 million comprises of £11 million estimated fraud and error detected and future losses prevented of £122 million. These estimated losses prevented represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

24. When £44 million of the £65 million of detected fraud and error being recovered (68 per cent), is combined with future losses prevented (£122 million), the monetary saving to the public purse of the NFI over the last two years is estimated at £166 million (84 per cent of the £198 million total).

25. Table 1 summarises, by dataset, the significant financial success in England. Where there are instances of a decrease in the amount of fraud and error reported, this is explored in the relevant section later in this chapter. Table 2 sets out other notable results for each dataset. The rest of this chapter then reviews these outcomes in more detail.

Table 1 - **NFI outcomes by risk area**

Dataset	Example activity area	2016 £million	2014 £million
Pensions	Individuals obtaining the pension payments of a dead person	85.1	75.9
Council Tax single person discount	Individuals who did not qualify for the Council Tax single person discount because they were living with other countable adults	37.4	38.7
Welfare Benefit	Individuals claiming housing benefit who failed to declare an income or change of circumstances	39.2	32.6
Social Housing/Right to Buy	Social housing tenants/waiting list applicants who were subletting, were not entitled to social housing because of their status in the UK, or had multiple tenancies unlawfully	6.3	26.7
Blue Badges	Potential misuse of blue badge parking passes belonging to someone who had died	13.2	10.7
Payroll	Employees working for one organisation while being on long-term sick leave at another or obtaining employment while not entitled to work in the UK	5.0	10.0
Creditor Payments	Traders who intentionally or unintentionally submitted duplicate invoices for payment	4.5	5.2
Payments to private residential care homes	Payments to private care homes by the local authority for the care of a resident where the resident had died	3.5	2.2
Concessionary Travel	Potential misuse of concessionary travel passes belonging to someone who has died	2.2	0
Other	Other immigration outcomes linked to student loans and licences	1.3	0.9
Personal budgets	Individuals claiming a personal budget who failed to declare an income or change of circumstances or were deceased	0.5	0.2
	Total	**198.2**	**203.1**

Source: National Fraud Initiative 2016

Table 2: **Key results in England**

	2016 Number of cases	**2014 Number of cases**
Pensions		
Pension payments stopped	3,592	2,990
Council tax single person discount		
Council tax single person discount claims stopped	37,825	41,029
Social Housing/Right to Buy		
Properties recovered	54	86
Right to Buy wrongly awarded	4	21
Applicants removed from a housing waiting list	726	2,394
Housing benefit fraud, error and overpayments relating to:		
Local government employees	1,417	2,378
Central government pensioners	922	2,128
Individuals receiving a local government pension	876	1,508
Students	1,944	1,632
NHS employees	516	774
Other	864	663
Immigration	67	61
Blue Badges		
Blue badges cancelled	23,063	21,278
Social Care		
Residents in private care homes	263	182
Personal budgets	113	30
Payroll		
Total employees dismissed or resigned	109	158
Creditor Payments		
Duplicate creditor payments	3,488	6,410
Other		
Concessionary travel passes cancelled	97,064	78,443
Total	**172,907**	**162,164**

Source: National Fraud Initiative 2016

Outcomes across England

26. The levels of fraud, overpayments and errors reported has reduced by two per cent on the previous reporting period, down from £202m to £198 million. However, it should be noted that the figures are not totally like for like and therefore do not provide a true reflection of variances between these reporting periods. The reasons for the reductions are set out in sections 27 to 30.

Revised pension estimate

27. One reason is that we have reviewed, and adjusted, the methodologies applied to estimated future losses prevented during this reporting period. For example, the pension future losses prevented calculation is now based on the annual pension multiplied by the number of years until the pensioner would have reached the age of 85, whereas it was previously up to the age 90. We estimate that this change has reduced outcomes by as much as £13 million. While all the current methodologies are outlined in Appendix 1 we have not carried out a full analysis to quantify the impact and to produce a retrospective comparison.

Social housing waiting list estimate

28. In addition, and as Table 1 highlights, another significant factor in the fall is the reduced social housing outcomes, specifically a pilot of social housing waiting lists. This reduction (£18 million) is linked to different methodologies for future losses prevented being applied, but in this case the changes have been made by the reporting organisations themselves not the NFI. During this pilot we have allowed individual local authorities to attempt to estimate the fraudulent losses prevented from the pilot themselves.

29. In the previous reporting period one London council removed 1,482 applicants from the social housing waiting list and estimated fraudulent losses prevented at £18 million (£12,000 per case - the estimated financial benefit relates to the reduced temporary accommodation costs). In this reporting period the pilot was expanded and 726 housing waiting list applicants were reported as being removed. However, very few reported an estimate of losses prevented. The overall total prevented was £1 million. This has resulted in a potential under reporting of up to £8 million, when compared to the £12,000 per case applied by the London council in the previous reporting period.

30. We have recently elected, following consultation, to make this match mandatory for the next NFI exercise. As part of this process we will evaluate all the evidence and establish an NFI estimation for future losses prevented for persons removed from the social housing waiting list. This will then be applied to all future outcomes for this match.

Recovery rate/impact on the public purse

31. The estimated future losses prevented, £122 million, are savings to the public purse. They are monies that we estimate would have been lost to fraud without the intervention of the NFI.

32. In addition to this £122 million, participants are in the process of recovering £44 million of the £65 million (68 per cent) of fraud and error losses that have been

detected. Table 3 provides further analysis of recovery rates for specific dataset areas.

Table 3 - **Recovery rates by dataset area**

Dataset	Fraud Detected (actual not estimated) £m	Amount in recovery £m	Recovery Rate
Pensions	11.4	7.5	65%
Council Tax single person discount	13.7	11.2	82%
Welfare Benefits	29.8	20	67%
Social Housing/Right to Buy	0	0	n/a
Blue Badges	0	0	n/a
Payroll	2.4	0.4	14%
Creditor Payments	4.5	3.0	67%
Payments to private residential care homes	1.7	1.7	100%
Personal Budgets	0.38	0.37	99%
Other	1.3	0.2	15%
Total	**65.2**	**44.3**	**68%**

Source: National Fraud Initiative 2016

33. Combined the losses recovered and the estimated losses prevented total £166 million, 84 per cent of the £198 million.

Pensions

34. The NFI matches pension information to data about deceased people, which is provided by DWP and the Disclosure of Death Registration Information (DDRI) from the General Registrar's Office. This is referred to as 'mortality screening'.

35. Frauds and overpayments of pension occur most often when pensioners die but relatives fail to tell the pension scheme about the death and knowingly continue to receive the payments.

36. Mortality screening has been part of the NFI for many years, yet we continue to identify consistently high levels of fraud cases, indicating that new pension frauds and overpayments are regularly being initiated.

37. During this exercise, the NFI identified 3,410 cases where pensioners had died, but payments were continuing. The majority, 98 per cent, of these cases were identified by public sector pension schemes. Actual overpayments detected (£11.4 million) and estimated future losses prevented total £85 million (Appendix 1).

38. Twice a year the NFI offers organisations pension schemes an additional opportunity to screen against DWP data about deceased people. Schemes can also match to the Disclosure of Death Information Register at a time to suit them rather than waiting for the two yearly national exercise. Some of the UK's largest public sector pension schemes utilise this more regular mortality screening and evidence suggests that this has reduced the average value of overpayments, as a result of them being identified

sooner. This has also meant that the total amount of fraudulent and erroneous overpayments made, and therefore needing to be recovered, by these schemes has been significantly reduced.

39. Case study 1 provides an example of how regular mortality screening is helping to reduce fraud losses.

Case study 1: Pensions

NHS Business Services Authority (NHSBSA) began undertaking six monthly mortality screening with NFI from November 2013. Although the number of deceased pensioner cases have remained very similar across both the 2012/13 and 2014/15 exercises, the average overpayment value has decreased by 38 per cent from £3,033 per case in 2012/13 to £1,868 per case in 2014/15. This indicates that NFI has assisted NHSBSA in identifying deceased cases sooner, thereby reducing the amounts needing to be recovered.

Source: National Fraud Initiative 2016

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40. Although the overall recovery rate for the £11.4 million of overpayments in the reporting period stands at 65 per cent, it is encouraging that the recovery rate from the most recent matches, NFI 2014/15, has risen to 80 per cent. We will continue to work with participants to ensure they maximise the recovery of these overpayments. At the same time we will encourage other schemes to adopt more regular data matching to minimise the overpayments that need recovering.

Council tax single person discount

41. Over the last two years the NFI match to tackle council tax single person discount (SPD) abuse has once again provided substantial returns for councils. Over 37,000 SPDs have been cancelled and £11 million of underpayments of council tax (82 per cent) have been/are being recovered. In addition the impact of the changes to the annual council tax base in England are estimated to have increased revenues to councils by around £24 million.

42. However, despite this success there are still nearly 44 per cent of councils in England that are not maximising the benefits the NFI matches offer. We acknowledge that some of these councils are using other matching initiatives. However, the NFI and private sector organisations use different data sources and therefore both produce different matches. Both can be useful. We therefore encourage, and have spent time helping, councils undertaking alternative data matching to identify and review the additional matches that NFI identifies.

43. In the last two years, following consultation, the council tax SPD module has become an annual data match which is aligned with the annual publication of the electoral register. Doing this allows fraudulent and erroneous claims to be spotted quicker. It also allows councils to manage their resources more efficiently by spreading the investigations more evenly rather than having a peak every two years. Early evidence suggests that the additional matches released in the first of these annual exercises has significantly contributed to the rise in overall outcomes.

44. Given the continued levels of fraud and error detected in council tax single person discounts, we have recently released the results of a pilot exercise which involved

matching SPD against a wider range of datasets that the NFI already has access to, for example social housing and payroll. The results of this pilot will be evaluated and if, as expected, they help councils identify further fraudulent and erroneous claims, we will integrate this matching into the annual exercise.

45. In order to help councils follow up the annual NFI matches efficiently, we have developed and launched a sophisticated but easy-to-use mail merge tool. This tool helps councils produce letters from the information provided in the data match to print and send locally to charge payers in receipt of single person discount, enquiring if they have a change of circumstance to declare.

Housing benefit

46. In November 2015, the DWP reported that in 2014/15 councils across Great Britain paid out over £24.3 billion in housing benefit. The equivalent fraud losses are about £590 million, or 2.4 per cent, each year[9].

47. The NFI matches housing benefit records against multiple data sources, including student loans data, immigration data, payroll data, housing tenancy data and data that can indicate earnings such as taxi driver licence holder data. The matches may identify where a person is claiming a benefit that they are not entitled to.

48. Housing benefit overpayments account for a significant proportion of the total fraudulent overpayments identified through the NFI. During this exercise, the NFI has helped to uncover benefit frauds and overpayments worth £36.7 million, 20 per cent of total NFI outcomes in England. Across the reporting period, action has been/is being taken to recover 67 per cent of the £27.6 million actual overpayments. Further analysis of this recovery rate shows that, while it is as low as 54 per cent for the NFI 2012/13 matches, it has risen to 73 per cent for the NFI 2014/15 matches. Going forward, we will continue to work with participants to help ensure recovery action is taken wherever reasonable.

49. Action taken against benefit fraudsters, as a result of the NFI matches, included 392 prosecutions, 697 administrative penalties and 234 cautions. Case study 2 provides an example of a fraud case identified by the NFI.

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[9] Department for Work and Pensions, Fraud and Error in the Benefit System: 2014/15 Estimates (Great Britain), Department for Work and Pensions, November 2015.

Case study 2: Housing benefit

The investigation of a NFI housing benefit to pension match identified a claimant who originally denied being in receipt of a civil service occupational pension at formal interview. She later pleaded guilty to failing to declare that same pension when making her claim to housing benefits.

She also denied holding the bank account into which her pension was paid, despite several discussions about the matter during the course of the interview. The claimant has been overpaid Housing benefit, Council tax benefit and Council tax reduction. A total loss to the public purse of over £10,000.

These overpayments are now being recovered and the court imposed a fine of £110, a victim surcharge of £20 and costs of £350.

Source: National Fraud Initiative 2016

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50. In addition to the NFI 2014/15 matches released in January 2015, the DWP provided refreshed housing benefit data for an additional match to refreshed data for student loan, immigration and deceased persons. The matches were released in December 2015 and the outcomes of investigations are beginning to be reported, with the majority expected in the next 12 months.

51. During this reporting period there have been some significant changes to the arrangements for detecting housing benefit fraud. These changes have been led by the DWP, most notably the:

   • Single Fraud Investigation Service (SFIS) project which transferred the responsibility for investigating housing benefit fraud from local authorities to the DWP Fraud and Error Services (FES). Local authority staff transferred to DWP as part of a phased roll out between July 2014 and March 2016; and
   • use of HM Revenue and Customs (HMRC) Real Time Information (RTI) to match benefits, including housing benefit, to identify under declared earnings and non-state pension. Under this initiative, DWP regularly issued referrals to local authorities from October 2014.

52. The above changes have impacted on the NFI housing benefit outcomes over the reporting period and are expected to continue to do so as the new arrangements become embedded. The transition to DWP FES appears to have resulted in many of the NFI matches being investigated by local authorities or referred to DWP for investigation later in the period. To date DWP have reported, from the NFI matches referred to SFIS, overpayments of £2.1 million across 407 individual cases, with a further 997 overpayment cases currently under investigation. We would therefore expect significant outcomes from the existing NFI matches to continue to be reported throughout 2016, as these investigations are concluded. Based on the figures provided to date, realised by SFIS, these outcomes could exceed £6 million.

53. RTI should help local authorities and DWP identify fraud and error earlier, and indeed that appears evident from the NFI outcomes which have shown a sharp decline in the number of outcomes from earnings based matches. For example the housing benefit to pension matches outcomes have seen a 51 per cent reduction in the number of cases, and a 29 per cent reduction in associated overpayments. However, despite RTI, there are still £9.7 million of NFI overpayments across 3,794 cases from

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earnings based matches (payroll and pension data). More work needs to be undertaken to fully understand why these may not have been identified by RTI at an earlier stage and to ensure duplication of effort is minimised whilst maximising fraud detection.

54. Now the transfer of responsibility for investigating housing benefit fraud from local authorities to the DWP FES is complete, we will work with both DWP and local authorities to ensure the arrangements for the next NFI are aligned correctly with the new environment.

State benefits

55. We have been working closely with the DWP over the last two years to understand how the NFI could assist more widely in their fight against fraud, specifically in pursuing individuals that deliberately withhold information. As a result of this collaboration, and for the first time, the NFI undertook data matching to state benefits on behalf of DWP. This included matching the NFI data to income support, job seekers allowance, employment support allowance and pension credit. The approach adopted mirrored the successful housing benefit matching. Following a limited pilot and subsequent evaluations, initial matches were released in January 2015 with a further release in December 2015. Together these matches identified overpayments for 2014/15 totalling £2.2 million.

56. Building on this success, we are already working with the DWP on plans to undertake a pilot data match using Universal Credit data in 2016/17.

Social housing

57. In 2015, the Department for Communities and Local Government (DCLG) reported that over 1.2 million families were waiting for social housing[10]. Identifying unlawful subletting would free up properties for those on the waiting list. Tenancy fraud should therefore be a key priority for councils and housing associations. The NFI helps to fight this fraud by undertaking data matching to:

- identify properties that are potentially being sublet unlawfully;
- identify tenancies gained by deception; and
- help social landlords verify their tenants' immigration status and identity.

58. The National Fraud Authority stated in the 2013 Annual Fraud Indicator[11] that the cost of housing tenancy fraud to local authorities is estimated to be £845 million per year. This was estimated to be the second largest area of fraud loss in local government. To address this, funding was made available to councils to tackle social housing fraud alongside the *Prevention of Social Housing Fraud Act 2013* which came into force in October 2013 and made tenancy fraud a criminal offence.

59. The NFI matches have enabled social landlords to recover 54 properties from those in unlawful occupation, and reallocate the properties to tenants in genuine need of

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[10] Department for Communities and Local Government, Statistical data set - Table 600: numbers of households on local authorities' housing waiting lists by district: England 1997 to 2015, Department for Communities and Local Government, 21 January 2016.
[11] National Fraud Authority, *Annual Fraud Indicator*, National Fraud Authority, June 2013.

them. In addition, two of the tenants were prosecuted. Case study 3 provides an example of housing tenancy fraud identified through the NFI data matching.

Case study 3: Housing tenancy

A housing tenancy to immigration match highlighted a case where a tenant had provided false immigration papers to obtain a tenancy with the council when he had never had the right to remain in the UK.

The investigation also revealed that a false passport had been provided to the Department for Work and Pensions when the claimant applied for job seekers allowance which also enabled him to claim housing and council tax benefit. Overpayments in this area total over £28,000. The tenant has been evicted and arrested, allowing the council to reallocate the property to someone in genuine need. The case is due to be heard in court.

Source: National Fraud Initiative 2016

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60. However, in this context it is disappointing that, since our report in June 2014, there has been a decrease of 37 per cent and a continuation of the position we reported last time. This decrease, when compared to our previous reporting period of 86 properties, continues to be a trend (235 properties were recovered in 2010/11). It should be noted however, that the decrease in properties recovered goes beyond the NFI. The TEICAFF *Protecting the English Public Purse 2015* report outlined a 1.2 per cent decrease in the number of social homes recovered from tenancy fraudsters in 2014/15 in the UK, with London councils recovering 10.5 per cent fewer.

61. We will work with our key stakeholders in this area to better understand the reasons behind the decrease in properties recovered so we can enhance our data matching to better help tackle tenancy fraud.

Housing associations

62. Over 50 per cent of social housing in England is managed by housing associations, so it is disappointing that only 32 out of 1,582 of these private registered providers of social housing chose to take part in the NFI 2014/15. These 32 recovered six properties that were in unlawful occupation.

63. The National Fraud Authority, Annual Fraud Indicator 2013 estimated that, based on the total cost of housing tenancy fraud, the cost to the public purse of housing tenancy fraud against housing associations costs £919 million per year. Given the scale of the potential fraud loss to the public purse, it is vital that housing associations play their part in tackling tenancy fraud.

64. There are potential emerging considerations for housing associations including the extension of the Right to Buy (RTB) scheme to assured tenants of housing associations on a voluntary basis. No implementation date has yet been announced for the extension of the RTB scheme, although a pilot scheme with five associations is underway.

65. In addition, as a result of a consultation exercise in 2012, social landlords in England were given the discretion to charge market or near market rents to tenants with an income of £60,000 or more a year. It was agreed that high income families should not

be paying social rents when they could afford to pay more. The scheme, known as 'pay to stay', was announced as part of the Summer Budget 2015. The Chancellor set out that this discretionary 'pay to stay' scheme would be made compulsory (in England) and measures to introduce a mandatory pay to stay scheme for local authorities are included in the *Housing and Planning Act 2016* [12]. The scheme will remain discretionary for housing associations.

66. We will continue to monitor the implementation of these new policies and seek to understand any associated fraud risks for housing associations and how our data matching can be enhanced to better help them mitigate any risks.

Housing waiting lists

67. As stated above, DCLG reported[13] that, as of 1 April 2014, the number of households on local authority social housing waiting lists was 1.2 million. Removing applicants from the housing waiting list who are not eligible for social housing will therefore enable local authorities to allocate social housing to those in genuine need.

68. To help, and in line with the NFI strategy to target more preventative data matching (in this case stopping someone obtaining social housing from the outset), a pilot data match was introduced in 2012/13 to target this fraud risk. The match was refined as a result of the 2012/13 pilot and offered again in 2014/15. 61 local authorities across the country provided housing waiting list data for this second pilot match.

69. The data matching is able to identify people who are not eligible for social housing or have misrepresented their circumstances on housing waiting list applications. Those not entitled can then be removed from the housing waiting list and prevented from accessing social housing. The data matching helps identify:

- an undisclosed social housing tenancy;
- an undisclosed change in circumstances;
- the unreported death of the applicant; or
- an applicant that is not entitled to social housing, for example, because of their immigration status.

70. As a result of the further pilot, over 700 applications have been removed from housing waiting lists bringing the total outcomes for the pilot since it began to over 3,000 removals. Local authorities themselves have estimated that this has prevented losses of almost £20 million. As a result, and following consultation, we have added housing waiting list data as a mandatory requirement in the NFI 2016/17.

Right to buy

71. The NFI matches data relating to housing tenants that have bought, or are in the process of buying, their council property at a discount as part of the Right to Buy (RTB) scheme. The match, to housing benefit and other tenancy records, enables councils to identify potential cases where the applicant may have provided false

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[12] http://services.parliament.uk/bills/2015-16/housingandplanning.html
[13] Department for Communities and Local Government, Statistical data set - Table 600: numbers of households on local authorities' housing waiting lists by district: England 1997 to 2015, Department for Communities and Local Government, 21 January 2016.

information in support of the RTB application. It also identifies changes of circumstances, such as the former tenant selling the property within the discount period. This means that some, or all, of the discount amount could be repaid to the council.

72. In April 2012, in an effort to increase the opportunity for council tenants to own their own home, the government significantly increased the RTB discount in England to a maximum of £75,000.

73. In March 2013, the maximum discount for London increased to £100,000, and in July 2014 the maximum percentage discount for a house was increased further to 70 per cent; the maximum cash cap now increases in April every year in line with inflation. The maximum discounts are currently £77,900 across England and £103,900 in London. Eligibility rules also changed to allow people who have spent three years as a public sector tenant, instead of the previous five years, to exercise their Right to Buy.

74. The Audit Commission's *Protecting the Public Purse 2014* report recommended that councils should be alert to the risks as a result of these changes.

75. However, the NFI outcomes do not reflect an increased fraud risk in RTB, as councils have only reported stopping four applications that were in progress, compared to 21 in the previous reporting period.

76. This may indicate that the fraud risk is not as big as other indicators suggest or that NFI is not currently an effective tool to identify RTB fraud. We will work with councils to establish the underlying reasons and whether improvements are necessary.

Concessionary travel

77. Since 2008 the English National Concessionary Travel Scheme (ENCTS) has enabled eligible older people[14] and disabled people to access free off peak travel on local bus services anywhere in England. In London, the statutory concession for London residents covers the whole London Local Transport Network, including the London underground and trams.

78. ENCTS is administered locally by Travel Concession Authorities (TCAs). These include County Councils, Unitary Authorities, Passenger Transport Executives and London Boroughs. In 2014/15 there were 9.8 million concessionary pass holders in England, and one billion concessionary journeys were made during the financial year[15]. In 2014/15 TCAs in England spent a total of £1.2 billion[16] on the concessionary travel scheme.

79. Each concessionary travel pass is usually valid for up to five years, so the opportunity for fraud can therefore be significant. Outside London, the Department for Transport estimates that, up to £55 million a year could be saved in England by tackling fraudulent use of concessionary travel cards[17]. Similarly, the South Yorkshire

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[14] Eligibility for a pass for both men and women is based on the State Pension age for women.
[15] Department for Transport, Concessionary Travel Statistics: England, 29 September 2015.
[16] This includes all aspects of the scheme for both the statutory and discretionary elements, including reimbursement to bus operators' administration, pass production costs and employee costs.
[17] ITSO, ITSO News, February 2014, page 1.

Passenger Transport Executive carried out research that estimated concessionary travel pass fraud was costing them an estimated £750,000 per year[17].

80. The NFI data match targets this fraud risk by identifying cases where the holder of a concessionary travel pass is identified as deceased. In this exercise the number of concessionary passes either updated, cancelled or hot-listed (the act of stopping/deactivating the deceased matched cards) is 97,064. This is a 24 per cent increase on the 78,443 reported last time.

81. We estimate the value of fraud detected and prevented associated with each pass is £24. As a result the total associated value of fraud and error detected and prevented for 2014/15 stands at £2.2 million.

82. The 24 per cent increase in passes cancelled, updated or hot listed may be linked to the roll out of smart ticketing systems across the UK which have meant some ENCTS operators have been able to introduce new technology to help hot-list invalid passes using data sources such as NFI. ENCTS operators can now hot-list passes centrally, and then flag them in the smart ticketing system which then enables drivers to confiscate passes directly at the point of travel. This then prevents invalid or fraudulent travel far more easily than would have been the case previously. This has meant there is also an increased incentive for ENCTS operators to utilise the NFI concessionary travel matches.

Blue badges

83. Unitary authorities and county councils are responsible for awarding blue badges, which provide a range of parking concessions for people with severe mobility problems, who have difficulty using public transport. In London, this concession extends to the congestion charge.

84. Fraudsters exploit the scheme by forging badges and stealing badges from cars. Abuse also occurs when badges remain in use, or are renewed by someone, after a badge holder has died. The NFI data match identifies cases where a Blue Badge is in circulation but the owner of the badge is identified as deceased. It also identifies holders of more than one badge, which is not allowed under the scheme.

85. In this reporting period, the 23,063 Blue Badges cancelled represents an eight per cent increase on the 21,278 cancelled in the previous reporting period. This has reversed the decrease in the number of badges cancelled in the previous two reporting periods, suggesting that the NFI matches still provide a valuable, additional tool to the Blue Badge Improvement Service[18] in the fight to prevent and detect fraud.

86. The estimated value of cancelling a blue badge, which represents an estimation of the fraud to date plus future losses prevented, has been increased from £500 to £575. Therefore the total monetary value associated with cancelling these Blue Badges is £13.2 million for this reporting period.

Immigration

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[18] https://www.gov.uk/government/speeches/blue-badge-improvement-service

87. The NFI matches data from the Home Office on immigration offenders and expired visas against data from other participants such as housing benefit claims, employee payroll records and social housing tenants.

88. Aggregate outcomes across the NFI datasets for this reporting period amount to £7 million and include:

- the dismissal or resignation of 52 employees from 139 organisations, including local authorities, NHS hospitals and NHS Foundation Trusts;
- councils and the DWP identifying 149 housing benefit overpayments amounting to £2.6 million;
- the recovery of 13 social housing properties; and
- employers identifying £3 million of salary payments to illegal workers.

89. Case study 4 provides an example of how the NFI matches discovered someone working illegally.

Case study 4 - Immigration

A payroll to immigration match identified an employee of a council who had managed to gain employment in 2009 as an assessor in Adult and Community Services. However, investigations carried out as a result of an NFI match showed that the employee did not have permission to work in the UK and had used forged identity documents to secure employment. The employee was immediately suspended and then subsequently resigned. When the employee was asked to attend an interview under caution they failed to attend due to illness and stress, on three separate occasions.

The Council is now seeking to prosecute the former employee. Over six years the employee was paid in excess of £160,000. The Council now uses the latest identity authentication software in all recruitment cases to ensure that any attempts made by persons seeking employment when using false identity documents are identified at the outset.

Source: National Fraud Initiative 2016

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90. The Home Office have utilised the results of the NFI data match to investigate immigration and asylum support cases, and have identified a number of individuals who have left the UK, post-NFI matching. Through the use of the NFI mortality screening service they have also closed over 130 cases.

Payroll

91. Employee fraud poses a serious risk to organisations. Exposure needs to be minimised through adequate internal checks and controls and anti-fraud initiatives. Employers should regularly raise awareness of the severity of the action they will take if an employee is found to be committing fraud.

92. The NFI matches payroll data to help identify employees who are potentially committing fraud. The matching may be linked to immigration, as set out above. Alternatively, it might show someone working for two employers, for example, when the individual is on long term sick leave for one of the jobs and is not entitled to work

elsewhere at the same time. Case study 5 provides an example of a fraud case identified by the NFI.

93. We have seen a decrease of £5 million in reported payroll related outcomes. This is contrary to the increases we have seen in the previous two exercises (where outcomes increased by £2 million for each exercise). The decrease appears to be linked to a fall in the number of immigration cases reported by participants and the associated cumulative salary payments to the illegal workers. One reason for this could be that bodies have been able to put in place effective mechanisms to identify illegal working, such as identifying fraudulent documents at the point of employment, using identity authentication software packages. Going forward, we will monitor outcomes and undertake a review to establish whether this is a trend that we need to respond to.

Case study 5 - Payroll

A payroll to payroll match helped to identify a 58 year old woman who had been working for two health based trusts simultaneously by working in one post while suspended from the other. As a result, the woman was dismissed from her substantive post in July 2015, and also removed from the nurse bank at the other trust. Investigations revealed she had failed to declare her secondary employment, and had also failed to declare a previous conviction.

Source: National Fraud Initiative 2016

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94. Payroll matches also identify fraud through undeclared conflicts of interest. This is done by matching payroll to creditor payments data. Whilst there are some encouraging results for this relatively new match, we expect these to be even better in future exercises now the NFI has secured access to Companies House data.

95. Investigations into the NFI payroll matches (excluding immigration cases) have enabled employers to dismiss or seek resignation from 42 employees.

Creditor payments

96. Creditor payments matches continue to produce significant outcomes with over £4.4 million of wrongly paid duplicate invoices identified across more than 200 organisations. This is a 16 per cent reduction from the previous exercise. Case study 6 provides an example of a case identified by the NFI.

Case study 6 – Creditor payments

An NFI match helped one government department identify a duplicate payment in excess of £300,000. This duplicate invoice was raised by a supplier in error and was not identified by the invoice approval process. Once identified, through the NFI, the supplier was contacted and the payment was refunded immediately.

Source: National Fraud Initiative 2016

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97. Much of this reduction is thought to be due to many creditor systems now having integrated validation routines that will prevent many duplicate invoices entering the system prior to payment. This is supported by a more detailed analysis of the NFI reports containing duplicate invoices that have certain features that are more difficult to detect by system validation software, for example, where apparently different suppliers seem to be submitting identical invoices. These NFI matches have delivered £1.3 million of the NFI outcomes, with an average success rate around ten times higher than that of the standard duplicate invoice matches involving the same supplier. Consequently, for future exercises, we are aiming to focus our attention on those matches that are less likely to be prevented through the existing local arrangements.

98. As well as helping to identify duplicate payments, we are also aware that some organisations have utilised the duplicate creditor matches to carry out housekeeping exercises on their supplier databases. This is particularly useful when migrating to new systems but at all times reduces the risk of accidental or fraudulent payments being made to spurious suppliers.

Payments to private residential care homes

99. The cost of social care is rising and demands on social care services are growing. This is partly linked to the ageing population, with ONS figures showing that the number of people aged over 85 increased by 30 per cent between 2005 and 2014[19] so it is key that funding in these areas is not lost to fraud.

100. According to Prestige Nursing + Care research[20], the average annual cost for a room in a care home now exceeds £29,000, which is more than double the average pensioner's income of £14,300. Where councils agree that a resident needs to move into a residential care home, they may pay part or all of the care home's fees.

101. The NFI matches information about private residential care home payments to deceased persons' records to identify where payments are continuing for people who have died. These overpayments can carry on undetected for some time, diverting council resources away from genuine causes.

102. The NFI match helped identify 263 such cases amounting to £1.6 million. The overpayment has been, or is being, recovered in 99.8 per cent of cases which is an improvement on the previous reporting period where 71 per cent of overpayments were recorded as being recovered.

Personal budgets - direct payments

103. A personal budget is a sum of money that a council allocates to an adult (user) to meet their assessed needs for care and support. The user can choose how their budget is paid and how money is used. Personal budgets can be managed by the council, which commissions services for the user, or given to the applicant or the

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carer as a direct (cash) payment so they can buy their own care and support services.

104. In 2014 the Health and Social Care Commission reported 153,000 people were in receipt of direct payments (this was up from seven per cent from 2012/13)[21]. In 2014/15 total expenditure on personal budget direct payments amounted to £1 billion[22].

105. The NFI match helps councils to identify where:

- a recipient is deceased and a relative, family member, or carer has failed to notify the council;
- there has been a duplicate registration either within or between authorities;
- a person has failed to disclose some income sources such as a pension; or
- a fraudulent identity has been used by someone to apply for a personal budget.

106. Personal budget direct payments data was included as a mandatory match for councils in the 2014/15 exercise, as a result of a successful pilot carried out in 2012/13. In total, across 113 cases, £377,000 in overpayments were identified by the NFI, as well as £124,000 of estimated future savings. 99 per cent of the overpayments are being recovered by the administering organisations.

107. Case study 7 provides an example of a fraud case identified by the NFI.

Case study 7: Personal budgets

The new personal budget to deceased data match helped one local authority identify a payment where the recipient had already deceased. Payments had continued for over 16 months without the death being detected. The authority are seeking a prosecution and are aiming to recover in excess of £16,000 using the *Proceeds of Crime Act 2002*.

Source: National Fraud Initiative 2016

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108. In response to suggestions from participants, we also carried out further pilot work on personal health budgets, administered by clinical commissioning groups (CCGs). Adults eligible for NHS Continuing Healthcare have had a legal right to have a personal health budget since October 2014. In total, fourteen CCGs participated in this work and there were only limited outcomes as caseloads are still quite low (currently estimated to be 4,000 cases)[23]. The NHS expect this to be a growing area of work and the number and value of cases will increase. There is a mandate in place, which means that by 2020 between 50,000 to 100,000 people will be in receipt of a personal health budget or integrated personal budget[24]. We will therefore

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[21] Health and Social Care Information Centre, Community Care Statistics, Social Services Activity, England - 2013-14, Provisional release, July 08, 2014.
[22] Health and Social Care Information Centre, Personal Social Services: Expenditure and Unit Costs England 2014-15, Provisional release, September 2015, page 6.
[23] Department of Health, The Government's mandate to NHS England for 2016-17, January 2016, page 13 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494485/NHSE_mandate_16-17_22_Jan.pdf
[24] Department of Health, The Government's mandate to NHS England for 2016-17, January 2016, page 13 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494485/NHSE_mandate_16-17_22_Jan.pdf

continue to monitor this area and revisit at an appropriate time in the future, should the fraud risk increase.

Fraudulent identity data

109.   Operation Amberhill is an initiative led by the Metropolitan Police Service. The team collate and distribute data on false identities and share it with counter crime partners, including the NFI, to help detect fraud. This data consists of approximately 100,000 records[25] mainly of counterfeit and forged passports, national identity cards and driving licences which are manufactured or obtained by organised criminal gangs. The Amberhill data also includes fraudulently obtained genuine UK driving licences.

110.   The resulting data matches differ from those traditionally identified by the NFI and, as such, require a different follow up approach. Identity documentation checks are required as part of the investigation process to be able to determine whether a fraudulent identity has been used. This is particularly important given the possibility that the matched person may be a victim of the identify fraud rather than a fraudster.

111.   Data matches helped identify one case where the person was prosecuted using the Fraud Act 2006. A further eight cases of victim ID theft were identified and one police caution for use of a fraudulent identity. A further case was identified where an employee had gained employment using a fraudulent identity. The salary paid to this person totalled £369,000. More details on this can be seen in case study 8. One housing tenant was also removed from their social housing and payments to the recipient of a residential care home place were stopped as a consequence of the data matching.

Case study 8: Amberhill false identity

A payroll to the Met Police Amberhill false identity data match identified a 47 year old employee of Transport for London who had gained employment in 2007 after producing a genuine UK passport which had previously been fraudulently obtained using a fraudulent birth certificate.

The match led to investigations in which the Amberhill team confirmed the employee's identity as genuine but the passport as being a fraudulently obtained genuine document. The employee had no right still to be in the UK, having overstayed his student visa, or to work in the UK.

The employee pleaded guilty in court to the two fraud offences he was charged with (obtaining the passport by deception and fraud by false representation) and was sentenced to six months imprisonment suspended for two years and was also ordered to pay a court charge of £180 and a victim surcharge of £80. Transport for London dismissed the employee and are now looking to recover monies paid into the pension fund. His status in the UK is being reviewed by the authorities.

Source: National Fraud Initiative 2016

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[25] http://news.met.police.uk/news/100-000th-fraudulent-document-recovered-126134

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112.   *Sir Eric Pickles' independent review into electoral fraud (August 2016)* highlighted the links between electoral fraud/identity fraud to other benefit and financial fraud. In their evidence to the review, the National Police Chief's Council noted that analysis from Operation Amberhill had linked false electoral registrations with fraudulent applications for credit, benefits and other financial products; the fraudulent electoral roll entry was the means of creating a false identity footprint. Evidence to the review by the London Electoral Management Board (representing London returning officers) also warned that phantom registrations are made to facilitate fraudulent access to credit, services and benefits, as the electoral register becomes de facto evidence of residence. The Government is now carefully considering the recommendations of the review on tackling electoral fraud.

Chapter 5 - How can organisations make better use of the NFI?

This chapter looks at how organisations can get the most out of the NFI and considers how the NFI is used at an operational level.

113. The total of £198 million fraud, overpayment and error in England and the £1.2 billion identified since the NFI began is significant, but there are still opportunities for participants to achieve better results by making small improvements.

114. In this chapter we :

    • comment on the challenges the organisations taking part in the NFI have faced in the past two years;
    • report how effective organisations have been at following up the data matches;
    • look again at specific areas where improvements could be made; and
    • comment on the possibility that significant levels of fraud and error go unreported or undetected.

Participants' capacity and capability for investigating fraud

115. As part of our proactive engagement with the organisations that participate in NFI, such as our NFI User Advisory Group, local authorities have reported that their counter fraud resourcing capacity continues to reduce, and that a divergence in the capability of participants to combat fraud is emerging. The view is that this appears to have arisen from the transfer of investigation resource to the DWP Fraud and Error Services, where all benefit fraud is now investigated in one place, alongside the challenge of delivering budget reductions whilst maintaining front line services. Participants have stated that this has impacted on the effectiveness of the follow-up arrangements for the NFI matches.

116. Some participants have explained how they sought innovative ways to resource their counter fraud work, including consortium and shared partnership arrangements, or by increasing the fraud awareness of general employees. The NFI Team has also observed that participating organisations are increasingly integrating data matching techniques into their operational systems, for example duplicate creditor payment checks and deceased persons matching. There also appears to be increasing interest in the better use and sharing of data both internally and externally. For local authorities, this aligns with the vision set out in *The Local Government Counter Fraud and Corruption Strategy 2016-2019* that "*local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses*".

117. These approaches align with recent extensions to the NFI product range to incorporate fraud hub functionality (NFI FraudHub) and a point of application tool (NFI AppCheck), which can be integrated into existing internal controls. We are therefore now working closely with participants to understand how these services can

be embedded in their systems as anti-fraud controls to reduce fraud while not stretching counter fraud investigative capacity further.

The effectiveness of follow up arrangements

118.   For the NFI 2012/13 we were able to ask external auditors of mandatory NFI participants to assess the arrangements in place for taking part in the NFI and for following up data matches. For the NFI 2014/15, following the closure of the Audit Commission, we no longer have the same direct working relationship with the external auditors. Therefore we developed our own multi-criteria based risk assessment to review the progress that organisations were making with investigating their data matches to identify any that appeared not to be engaging effectively with the exercise.

119.   The risk assessment looked at factors such as organisations not:

- opening all or many of the NFI reports;
- reviewing guidance and training materials;
- investigating data matches flagged as high risk;
- following up issues promptly; and
- meeting suggested milestones.

120.   We followed up the risk assessments and gave support to organisations where it was needed. Many of these organisations have since taken action to address the weaknesses. Only one organisation is deemed to have failed to engage effectively by not reviewing any of their matches:

- NHS West Lancashire CCG.

121.   In addition, the following organisations failed to provide the data required under statute without reasonable excuse:

CTSPD 2013/14
- North Norfolk District Council failed to provide Electoral Register data[26].

NFI 2014/15
- Bassetlaw District Council failed to provide Housing Tenants and Right to Buy data;
- Isle of Wight Council failed to provide Personal Budgets and Private Residential Care Homes data;
- Mendip District Council failed to provide Residents Parking Permit data; and
- West Hertfordshire Hospitals NHS Trust failed to provide Trade Creditors History and Trade Creditors Standing data.

CTSPD 2015/16
- Mendip District Council failed to provide Electoral Register and Council Tax.

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[26] Data was provided for the subsequent CTSPD 2015/16.

Specific opportunities to improve

122. The NFI Team continue to encourage organisations to review and investigate the matches efficiently and effectively. This enables them to make better use of their limited resources. However, we remain concerned that some could and should do more. The types of improvement that can be made are listed in Table 4.

Table 4 - **How can organisations taking part work more effectively?**

How do I ensure …	Responses
….. that I am using the NFI software efficiently?	Ensure you and the staff within your organisation that are working on the NFI matches keep up to date with new features of the web application and good practice by reading the guidance notes and watching the online training modules before they begin work on the matches.
….. that I act upon the matches that are time critical so I identify overpayments at an early stage?	Key contacts should schedule staff resources so that time-critical matches, such as housing benefit to students and payroll to immigration can be dealt with as soon as they are received.
….. investigations across internal departments are coordinated to avoid duplication of effort or delays in identifying overpayments?	Key contacts should coordinate investigations across internal departments and, for example, organise joint investigation of single person discount matches involving housing benefit, to ensure all relevant issues are actioned.
….. I only spend time looking at matches that meet local fraud risks?	Use the tools within the web application, such as the filter and sort options or data analysis software, to help prioritise matches that are the highest risk. This will save time and free up staff for the most important investigations.
….. that enquiries from other organisations that take part in the NFI are responded to promptly?	The web application shows the number of shared comments which require a response. These responses should be prioritised if they relate to an ongoing investigation so that it can be progressed promptly.
…. data quality issues that are highlighted within the web application are addressed before the next NFI exercise?	Review the quality of the data supplied before the next exercise as external providers normally have to phase in changes to extraction processes. Better data quality will improve the quality of resulting matches.
….. I prioritise employee fraud recovery and the use of civil sanctions?	Develop capability and capacity to punish fraudsters, ensuring that investigations are not abandoned if the individual resigns, leaves the property etc. Seek, through collaborating with law enforcement and the courts, the recovery of defrauded funds.
Source: National Fraud Initiative 2016	

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123.   The Local Government Counter Fraud and Corruption Strategy 2016-2019 (page 15) states that "*Many local authority practitioners reported that the capacity to tackle fraud and corruption was likely to be reduced, or had already been reduced, as a result of austerity-related local authority funding reductions*". It is important therefore that all organisations adopt this good practice to ensure they use the valuable resources they invest in the NFI more effectively. Equally, with new participants regularly joining the NFI, it is vital that these organisations adopt good practice from the outset.

124.   As many of the messages have been highlighted previously, the NFI team will continue to look for new ways to communicate these messages more clearly to help participants maximise the benefits from the NFI.

125.   As well as piloting new data matches through our pilot programme, we will also look at what other techniques are being used to identify fraud to see if they can enhance the NFI, for example reducing the false positive rate of the NFI matches. This will include evaluating and applying, if appropriate, recent advancements in data matching techniques from academic research.

Under reported/identified fraud

126.   The National Audit Office (NAO) *Fraud Landscape Review 2016* noted that the exact scale of fraud within the government is unknown. It also reported that there could be significant[27] fraud and error that is unreported or undetected and losses that are not being adequately addressed. The NAO report that this is in part because of: large gaps in knowledge about fraud losses; methods to measure fraud accurately are still developing; and because fraud reported to investigative authorities is only a small proportion of the fraud detected.

127.   The National Fraud Initiative is a tool that can be used by organisations, both central and local Government, as part of an overall strategy to proactively look for fraud. By its nature, fraud can be a hidden crime, which means the use of proactive tools and techniques to detect fraud is an important part of a cohesive response to fraud. We will therefore work with public sector bodies to ensure that the tool provides them with the maximum assistance.

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[27] The UK figure of 0.02% of expenditure compares with estimates of 3% to 5% in the European Union and United States. (National Audit Office).

Chapter 6 - Looking to the future

This chapter looks at the future development of the NFI and what its focus will be.

128.   The next 18 months represents a key time for the NFI. We will deliver the next biennial batch data matching, NFI 2016/17, and at the same time we will look to maximise the benefits of the recent investment in the NFI product range and the move to the Cabinet Office, through growth in a number of key areas.

129.   Specifically we will focus on:

- fraud prevention through utilisation of the AppCheck product;
- new emerging risks;
- providing links to key third party datasets;
- strong engagement from key government departments;
- product development, seeking to embed links to the NFI in key suppliers software so there are multiple entry points to relevant NFI services;
- extension of our legislative powers;
- publication of a NFI strategy for 2016 - 2020

130.   We will also continue to work with the DWP and councils to ensure the benefits of the NFI are maximised now the DWP SFIS is fully operational.

Increased focus on fraud prevention

131.   We have invested significant resource in developing the AppCheck product to facilitate point of application checking. This preventative service complements the traditional detection tools and allows us to support organisations to stop fraudulent applications from being successful. Stopping them at the point of application reduces administration and future investigation costs.

132.   Following a series of pilots, we launched the full service in 2015/16 and now have a number of early adopters utilising this service, including all local authorities in Wales, following support from the Welsh Government. We are working with these organisations to ensure they maximise the benefits of participation, including rolling it out across all relevant internal departments. Alongside this, we will work more widely across all stakeholders to evaluate how AppCheck could support delivery of their fraud prevention and detection strategies.

Emerging risks

133.   Following successful pilots, we have extended the remit of the NFI 2016/17 to include social housing waiting list data and council tax reduction scheme (CTRS) data.

134.   Social housing waiting list data has been piloted over NFI 2012/13 and NFI 2014/15. In total across the pilots, 3,000 applicants have been removed from a social housing waiting list. The local authorities removing these applicants have estimated savings at almost £20 million. This data match is designed to prevent fraudulent tenancies before they occur, potentially reducing the number of future cases and subsequent

cost of tenancy fraud. Mandating this data aligns with the NFI work in fraud prevention.

135.   Following the replacement of council tax benefits by locally administered council tax reduction schemes in April 2013, CTRS data matching was piloted in NFI 2014/15 to capture fraud in this area. 51 local authorities took part in the CTRS pilot as part of the NFI 2014/15, with matches released in July 2015. With work still on-going, fraudulent and erroneous overpayments prevented and detected stand at £250,000. Based on these figures, it is estimated that mandating this dataset for NFI 2016/17 would prevent and detect fraudulent and erroneous CTRS overpayments worth around £1.5 million.

136.   We will continue to develop the NFI to meet new fraud risks by:

- listening to the concerns raised by organisations about emerging challenges facing them;

- working with key stakeholders in the public and private sectors;

- working with the Fighting Fraud and Corruption Locally Board, local authorities and others to ensure the NFI supports the implementation of *The Local Government Counter Fraud and Corruption Strategy 2016 -2019*; and

- encouraging suggestions on emerging fraud risks that NFI could assist to tackle.

Third party data

137.   We continue to seek to identify third party datasets that will add benefits to NFI participants. We are:

- piloting the use of data from Companies House and Cifas [28];

- evaluating the benefits that financial and insurance sector data offers; and

- in discussions with credit reference agencies (CRA's) about allowing NFI participants, on a voluntary case by case basis, to make a call out from the NFI web application to check the data submitted against the CRA data. The results could be integrated back into the NFI web application. Providing the potential to combine referral results in this way would offer another more unified option to organisations in their fight against fraud.

138.   As always we welcome feedback from anyone who feels they can suggest datasets that would improve the NFI.

Government department engagement

139.   Central Government departments can choose whether to engage with the NFI on a voluntary basis. We are pleased to say that the engagement of these departments improved in NFI 2014/15.

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[28] https://www.cifas.org.uk/

140. In addition to the continued support that some government departments give by providing data about housing benefit claimants, deceased persons, student loans and immigration status, other engagement included:

- DWP: undertook data matching on state benefits data following the successful housing benefit matching logic. As well as identifying fraud and error for the DWP, this data is now available to help prevent and detect fraud for other participants. In addition, we are delivering a Household Composition pilot for DWP, which aims to identify fraud where there are undeclared persons living at the claimant's address, by matching a wide range of data from across the public and private sectors. Going forward we also have a pilot on Universal Credit scheduled for autumn 2016.

- Pension Fraud: key government schemes submit pension records for deceased checks and abatement checks, leading to £3.2m of fraud and error being prevented and detected.

- Student Loans Company: supply student loans information which led to over £10 million of housing benefit fraud being detected and also student loan fraud prevented and detected by checking immigration status of claimants.

- Legal Aid: as well as submitting payroll and creditor information Legal Aid are piloting the AppCheck product.

- Land Registry: a pilot to target property fraud is underway.

- HMRC: providing data to feed into a pilot targeting living together fraud in benefits.

- Charity Commission: agreement to undertake a pilot.

- Department for Health: a pilot is underway to establish the benefits NFI can offer in helping reduce fraud and error in European Health Insurance Cards.

141. As the NFI forms part of the Cabinet Office Fraud, Error, Debt and Grants team portfolio, it is now aligned with the wider government strategy for fraud and error. This strategy includes liaising with key departments to explore how the NFI can be developed to best assist them to effectively target their specific fraud risks, as well as exploring whether they have data which could be used to better target fraud against other public sector organisations.

NFI product development

142. Over the last two years we have invested significant resources on our product range to ensure we offer flexible products suited to both fraud prevention (AppCheck) and detection (ReCheck).

143. We are now focused on providing more flexible access to the NFI product range. This will include engaging with relevant third party system suppliers to seek to integrate AppCheck into their systems. The aim is to enable participants to automatically access AppCheck through external systems they are already using, for example, existing case management systems. We are also seeking to integrate all the NFI products so they can all be accessed through one single portal.

Legislative powers extension

144. The Local Audit and Accountability Act 2014 (LAAA) allows for the Cabinet Office to seek to extend the permitted purposes of data matching to assist in the:

    • prevention and detection of crime (other than fraud);
    • apprehension and prosecution of offenders;
    • prevention and detection of errors and inaccuracies; and
    • recovery of debt owing to public sector organisations.

    These amendments to the purposes can be secured by regulation following consultation, as set out in LAAA 2014, Schedule 9, section 8 (1).

145. During the next two years we intend to commence this consultation.

NFI Strategy

146. We will publish, following consultation with participants and stakeholders, a strategy for the NFI for the period 2016 to 2020. In this we will outline our plans for developing the NFI products and performance metrics to better inform our continuous improvement, widening the range of data, and embracing new technology to ensure that the NFI continues to develop to meet the needs of participants. The strategy also includes undertaking a review of the NFI, which will include a review of:

    • right to buy fraud, in conjunction with external parties, that will consider implementation of relevant new policies, seek to understand any associated fraud risks with the aim of identifying how the NFI matching can better assist housing providers; and

    • immigration fraud to determine why there has been a reduction in the number of illegal working cases found through the NFI.

147. This strategy will shape the requirements for our procurement, in 2017/18, of the specialist IT resources required to deliver the NFI.

Appendix 1 - Report calculations (England)

An explanation of how we calculate the figures for frauds, overpayments and outcomes used in the report is shown in the following table. These estimated losses prevented represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

Table 5: **Report calculations**

Data Match	Fraud Detected (£million)	Estimated (£ million)	Total (£million)	Basis of calculation of estimated outcomes
Pensions	11.4	73.6	85.1	Annual pension multiplied by the number of years until the pensioner would have reached the age of 85[29]
Council tax SPD	13.7	23.7	37.4	Annual value of the discount cancelled multiplied by two years
Welfare benefits[30]	29.8	9.4	39.2	Weekly benefit reduction multiplied by 21 weeks[31]
Housing Waiting List	0.0	1.0	1.0	Recorded by participants
Blue badges	0.0	13.2	13.2	Number of badges confirmed as deceased multiplied by £575 to reflect lost parking and congestion charge revenue[32]
Payroll	2.8	2.2	5.0	£5,000 per case (£10,000 for immigration cases) and £50,000 for a removal from the UK
Tenancy fraud	0.0	6.0	6.0	£93,000 per property recovered based on average four year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies[33] £53,000 per property recovered in Northern Ireland[34]

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[29] Following a review in February 2016, the 'pensioner age', for outcomes from NFI 2014/15, has been reduced from 90 to 85, to align with the latest average life expectancy for pensioners at age 65.

[30] This includes housing benefit, state benefit and council tax reduction scheme.

[31] Following a review in February 2016, the estimated duration of overpayments, for outcomes from NFI 2014/15, has increased from 13 weeks to 21 weeks to align with the methodology used by DWP to calculate future overpayments prevented from detecting and stopping fraud and error.

[32] Following a review in February 2016, for outcomes from NFI 2014/15, this estimate has increased from £500 to £575 to reflect research and statistics relating to blue badge fraud.

[33] Following a review in February 2016, for outcomes from NFI 2014/15, this estimate has increased from £75,000 to £93,000 to reflect statistics relating to tenancy fraud.

[34] Based on the same tenancy fraud methodology for non NI authorities, with parts of the calculation aligned with regional statistics.

Data Match	Fraud Detected (£million)	Estimated (£ million)	Total (£million)	Basis of calculation of estimated outcomes
Trade creditors	4.5	0.0	4.5	
Private residential care homes	1.7	1.8	3.5	£7,000 per case based on average weekly cost of residential care multiplied by 13 weeks
Right to buy	0.0	0.3	0.3	£65,000 per application withdrawn based on average house prices and the minimum right to buy discount available[35] This estimate has the following regional variations: • London: £104,000 per application withdrawn to reflect the maximum value of Right to Buy discount available for London properties[36] • Northern Ireland: £31,000 per application withdrawn based on average house prices and minimum right to buy discounts in Northern Ireland[37]
Concessionary travel	0.0	2.2	2.2	Number of passes cancelled multiplied by £24, based on the cost of reimbursement to bus operators for journeys made under the concessionary pass scheme
Personal Budgets	0.4	0.1	0.5	Monthly reduction in personal budget payment multiplied by three months
Other immigration	0.9	0.4	1.3	£50,000 for a removal from the UK
Total[38]	65.2	132.9	198.2	

Source: National Fraud Initiative 2016

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[35] Following a review in February 2016, this estimate has increased from £52,000 per case, for the outcomes from NFI 2014/15, to reflect changes to the Right to Buy policy and increases in average house prices.

[36] Maximum Right to Buy value applied for London to reflect the London property market.

[37] Estimate calculation reflects Right to Buy policy and average house prices in Northern Ireland.

[38] The amounts included in this table relate to England results only and are subject to rounding.

Appendix 2 - Examples of the data matches the NFI undertakes

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Failing to declare an income while claiming housing benefit.
Payroll records to records of failed asylum seekers and records of expired visas.	Obtaining employment while not entitled to work in the UK.
Blue badge records to records of deceased people.	A blue badge being used by someone who is not the badge holder.
Housing benefit payments to records of housing tenancy.	Claiming housing benefit despite having a housing tenancy elsewhere.
Council tax records to electoral register.	A council tax payer gets council tax single person discount but the person is living with other countable adults, and so does not qualify for a discount.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

Source: National Fraud Initiative 2016

References

National Fraud Authority, *Annual Fraud Indicator*, National Fraud Authority, June 2013.

Audit Commission/Cabinet Office, Code of Data Matching Practice, Audit Commission, July 2008.

HM Government*, Local Audit and Accountability Act 2014,* The Stationery Office Limited, 30 January 2014.

Audit Commission, *Protecting the Public Purse 2014: fighting fraud against local government,* Audit Commission, October 2014.

HM Government, *Prevention of Social Housing Fraud Act 2013*, The Stationery Office Limited, 31 January 2013.

HM Government, *Housing and Planning Act 2016,* The Stationery Office Limited, 12 May 2016.

HM Government, *Proceeds of Crime Act 2002*, The Stationery Office Limited, 24 July 2002.

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Report to:	**Audit Committee**
Relevant Officer:	Tracy Greenhalgh, Chief Internal Auditor
Date of Meeting	24 November 2016

PUBLIC SECTOR INTERNAL AUDIT STANDARDS EXTERNAL ASSESSMENT

1.0   Purpose of the report:

1.1   To consider the findings of the Public Sector Internal Audit Standards External Assessment.

2.0   Recommendation(s):

2.1   The Committee is asked to consider the content of the report and the recommendations to be actioned.

3.0   Reasons for recommendation(s):

3.1   To ensure that the Council's internal audit team complies with the Public Sector Internal Audit Standards.

3.2a   Is the recommendation contrary to a plan or strategy adopted or approved by the Council?   No

3.2b   Is the recommendation in accordance with the Council's approved budget?   Yes

3.3   Other alternative options to be considered:

        N/a

4.0   Council Priority:

4.1   The relevant Council Priorities are

        •"The economy: Maximising growth and opportunity across Blackpool"
        •"Communities: Creating stronger communities and increasing resilience"

5.0   Background Information

5.1   The Public Sector Internal Audit Standards require that an external assessment of an organisation's internal audit function is carried our once every five years by a qualified, independent assessor or assessment team from outside the organisation.

5.2   The North West Chief Audit Executives Group has established a peer-review process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment through self-assessment with independent external validation and this report presents the summary of findings of the review carried out on behalf of Blackpool Council.

5.3   The peer review was carried out in June 2016 by the Heads of Internal Audit from Warrington Borough Council / Salford Council and Merseytravel / Liverpool City Region Combined Authority.

5.4   Following an on-site visit and a review of Blackpool Council's documentation the review team produced a summary of findings which was then subject to a detailed moderation process. The review team concluded that Blackpool Council conformed to the requirements of the Public Sector Internal Audit Standards.

5.5   The report includes a number of recommendations on how the Council can continue to improve the internal audit service delivered and these have been agreed and will feature in the Quality Assurance and Improvement Programme for 2016/2017. Progress against the recommendations will be reported to Audit Committee on an annual basis.

Does the information submitted include any exempt information?   No

List of Appendices:

Appendix 7(a): Peer Review of Internal Audit Against the UK Public Sector Standards.

6.0   Legal considerations:

6.1   All principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2015 (amended) must make provision for internal audit in accordance with the Public Sector Internal Audit Standards as well as the CIPFA Local Government Application Note.

7.0   Human Resources considerations:

7.1   None.

8.0   **Equalities considerations:**

8.1   None.

9.0   **Financial considerations:**

9.1   All the recommendations will be implemented within the constraints of internal audits existing budget.

10.0   **Risk management considerations:**

10.1   A professional, independent and objective internal audit service is one of the key elements of good governance in local government.

11.0   **Ethical considerations:**

11.1   None.

12.0   **Internal/ External Consultation undertaken:**

12.1   The Peer Review Team met officers and elected members as part of the review process including:

- Councillor Galley- Chairman of Audit Committee
- Neil Jack – Chief Executive
- Steve Thompson – Section 151 Officer
- Mark Towers – Monitoring Officer
- Tracy Greenhalgh – Chief Internal Auditor
- Gary Smith – Audit Manager
- Desmond O'Neill – Auditor

13.0   **Background papers:**

13.1   None.

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BLACKPOOL COUNCIL

PEER REVIEW OF INTERNAL AUDIT AGAINST THE UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS

CARRIED OUT BY

Stephanie Donaldson
Jean Gleave

ASSESSMENT DATES: 8 – 10 June 2016
FINAL REPORT DATE: 13th October 2016

1. **Introduction**

2. **Approach / Methodology**

3. **Conclusion: Overall Assessment**

4. **Observations / Recommendations**

Appendix 1   **Review Team Experience / Qualifications**

Appendix 2   **Detailed Assessment Table**

Appendix 3   **Action Table**

Appendix 4   **Additional Points for Consideration**

Blackpool Council
Peer Review of Internal Audit against the Public Sector Internal Audit Standards

1   Introduction

1.1   All principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2015 (amended) must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS) as well as the (CIPFA) Local Government Application Note.

1.2   A professional, independent and objective internal audit service is one of the key elements of good governance in local government.

1.3   The PSIAS require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

1.4   The North West Chief Audit Executives' Group (NWCAE) has established a 'peer-review' process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment through 'self-assessment with independent external validation' and this report presents the summary findings of the review carried out on behalf of Blackpool Council.

1.5   An independent assessor or review team is defined as not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

1.6   This review has been carried out by the Heads of Internal Audit from Warrington Borough Council / Salford Council and Merseytravel / Liverpool City Region Combined Authority. Details of the reviewers' relevant experience and qualifications are included at **Appendix 1**.

2 Approach/Methodology

2.1 The NWCAE Group has agreed a detailed Memorandum of Understanding (MoU) that outlines the broad methodology for the conduct of this review. A copy of the MoU is available upon request. However, in summary, the key elements of the process are:

- The peer review is undertaken in three stages: pre-review; on-site review; post-review, and covers audit activity during the period covered in the latest Head of Internal Audit Annual Report & Opinion.

- Each Authority is required to complete the PSIAS self-evaluation contained within the CIPFA Local Government Application Note (LGAN). The LGAN outlines the "sector-specific requirements for local government organisations" (para 1.13) and "has been developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self assessments" (page 23).

- The NWCAE Group has agreed that the validation will be based on the completed LGAN self-assessment. Typically, supporting evidence will include the Internal Audit Plan & Charter; The Head of Internal Audit Annual Report & Opinion; Quality Assurance & Improvement Programme; and examples of final audit reports and audit working papers.

- To support the on-site review, stakeholder questionnaires and interviews are also undertaken.

- The review comprises a combination of 'desktop' and "on-site" review.

- The review cannot reasonably consider all elements of the LGAN self-assessment and the review team will use the 'desktop' review to determine strengths, weaknesses and subsequent key lines of enquiry in order that the review itself is risk-based, timely and adds real value. Each Authority will be reviewed against three broad themes of: Purpose and Positioning; Structure and Resources; and Audit Execution.

- Upon conclusion of the review, the review team offers a judgement on the validity of the self-assessment and an overall assessment as follows: **Conforms**, **Partially Conforms** or **Does Not Conform** against each

thematic area of the LGAN, from which an aggregation of the three themed scores gives an overall Authority score.

3   Conclusion

3.1   Following a detailed moderation process, the review team has concluded the following overall assessment:

Area of Focus	Assessment
Purpose & Positioning	Conforms
Structure & Resources	Conforms
Audit Execution	Conforms
Overall Assessment	**Conforms**

3.2   Assessment against the individual elements of each area of focus is included in the Detailed Assessment table at **Appendix 2** and a summary of the areas for consideration to improve / develop the service is identified within the Action Table at **Appendix 3.**

3.3   Additional points for consideration identified during the review that are out of the scope of the Standards / LGAN requirements but are contributory to the overall effectiveness and efficiency of the internal audit service are presented in the table at **Appendix 4** of the report for information and consideration only.

3.4   As part of the self-assessment against the PSIAS a number of specific areas were noted as currently being partially compliant. However the review team confirmed that steps are in place to address each of these areas as part of the overall future development of the Service and none of these issues have any fundamental impact on the overall conformance of the Service with the PSIAS.

4   Observations and Recommendations

4.1   Code of Ethics

In accordance with the Standards, an internal Code of Ethics has been produced and is located within the Audit Manual.

However, although Internal Audit Staff are aware of the requirements of the Code of Ethics, and evidence of declarations of interest are retained, staff do not formally sign or confirm awareness on a periodic basis. R*ecommendation 1.*

4.2   Attribute Standards

4.2.1   1000   Purpose, Authority and Responsibility

Internal Audit Charter

The Internal Audit Charter is included within the Annual Plan, and thus can only be amended and updated through the amendment to the Annual Plan.
It was noted that some specific Charter requirements of the PSIAS were located in the Annual Plan and not in the Charter itself, as follows:

- Definition of Board, & Senior Management;
- Definition of and explanation of nature of Consultancy work and assurance work;
- Responsibility of Board and senior officers in relation to Internal Audit;
- Reference to the legislative framework (eg: Audit & Accounts Regulations 2015) and mandatory nature of the PSIAS / LGAN; and
- Confirmation of the arrangements for appropriate resourcing, including the role of Internal Audit in other activities such as Counter Fraud and Risk Management.

The Standards do not explicitly state that the Charter should be a discrete document, however the requirements of its content are clear.

Furthermore, following recent changes to the PSIAS (April 2016) it should be noted that the Charter will require update to reflect the revised PSIAS

requirement; namely the inclusion of the Internal Audit Mission Statement and Core Principles for the Professional Practice of Internal Auditing. *Recommendation 2.*

4.2.2 1110   Organisational Independence

No formal process exists for formal feedback to be sought from the Chief Executive or Audit Committee Chair to inform the annual appraisal or performance review of the Chief Internal Auditor. Whilst we established that informal communication channels exist, a more formal process would facilitate positive feedback as well as concerns, which are currently only be raised on an *ad-hoc* basis.

Although not a requirement of the Standards, due to the positioning of Internal Audit in respect of organisational governance, for which the Monitoring Officer has overall responsibility, it would seem appropriate that feedback is also sought from the Monitoring Officer. *Recommendation 3.*

4.2.3 1130   Impairment to Independence or Objectivity

The Standards require that where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, approval should be sought from the Audit Committee before the engagement is accepted. However as no provision for consultancy services is made within the initial plan, it could not be demonstrated that the Audit Committee had proper oversight of the nature, or amount of consultancy work undertaken. **Recommendations 6&7** below address this finding.

4.2.4 1300   Quality Assurance and Improvement Programme (QAIP)

In accordance with the requirements of the Standards, a comprehensive QAIP has been produced and is located within the three-year Strategic Audit Plan. The Standards do not explicitly state that the QAIP should be a discrete document, but the practice of including the QAIP within a strategic document

compromises the ease with which the document can be maintained, reviewed and updated.

Such a review and update of the QAIP would be timely, following the new requirements of the revised Standards in April 2016, particularly in respect of the Core Principles. *Recommendation 4.*

4.3 Performance Standards

4.3.1 2010 Planning

Our review identified that there are no specific links to the organisation's objectives and risks within the strategic or annual audit plan, and that the relationship between the Corporate Risk Register and the nature and scope of planned audit work could be more clearly defined. **Recommendation 5.**

The use of Internal Audit resources are not clearly defined in the Annual Audit Plan, in particular at a senior level. There is no provision or allocation of resource in respect of the activities of the Chief Internal Auditor or Audit Manager. **Recommendation 6.**

Furthermore, consultancy reviews and services, corporate governance and risk work and counter fraud activity are not reflected in the plan. Days utilised on such activities are not reflected within the scope of the Annual Audit opinion, or outcomes reported formally, for example to the Audit Committee. **Recommendation 7.**

It was noted that Audit Reports are routinely produced at the conclusion of consultancy reviews and therefore include an Audit Opinion, as a matter of course. From discussions with officers during the review it was suggested that this can have a detrimental effect on the perception of the outcomes of such reviews. The Standards define Internal Audit as providing consulting activity to "add value and improve an organisation's operations", and when providing a support and advisory role, it may not always be appropriate to provide an audit opinion, where weaknesses were known prior to the request, or indeed

where the consultancy request was borne from a desire to acknowledge these and seek to improve. ***Recommendation 8.***

In respect of assurance mapping, only external audit is taken into account and there is no consideration of other sources of assurance, such as external inspectorates and other agencies or consultants. ***Recommendation 9.***

4.3.2   2450   Overall Opinion

The LGAN clearly defines the requirements of the Annual Report and Annual Audit opinion. However, whilst in the main the Annual Report was compliant with these requirements, it was noted that the specific link between the Annual Report and the Annual Governance Statement that it seeks to inform is not clearly made.

As, consultancy reviews and services, corporate governance and risk work and counter fraud activity are not reflected in the plan, there was little or no reference to this within the Annual Report. Discussions with the head of internal audit indicated that such reviews are considered when forming the overall Annual Audit opinion, however, the extent to which this work had informed the opinion could not be demonstrated. ***Recommendation 10.***

Stephanie Donaldson MA (hons) CPFA

Stephanie is a Charted Public Finance Accountant (CIPFA) and currently Head of Internal Audit at both Merseytravel (Passenger Transport Executive) and the Liverpool City Region Combined Authority (LCRCA).
Stephanie is also a member of the CIPFA NW Society Council and a CIPFA Technical Information Service (TIS) Editorial Board member, having previously been a member of the CIPFA NW Audit, Risk & Governance Group for a number of years.

Jean Gleave CMIIA

Jean is a fully qualified member of the Chartered Institute of Internal Auditors and is Chief Internal Auditor at Salford and Warrington Councils. Jean has 30 years' experience in Internal Audit in Central Government, the NHS and in the private sector with the Insurance industry. Jean is currently Chair of the North West Audit Risk & Governance Group.

Detailed Assessment

PSIAS Ref		conforms	Partially conforms	Does not conform	Comments
	Purpose & positioning				
	Code of Ethics				Appendix 2 Ref 1
1000	Remit	X			Appendix 2 Ref 2
1000	Reporting lines	X			
1110	Independence	X			Appendix 2 Ref 3
2010	Risk based plan		X		Appendix 2 Ref 5-8
2050	Other assurance providers		X		Appendix 2 Ref 9
	Structure & resources				
1200	Competencies	X			
1210	Technical training & development	X			
1220	Resourcing	X			
1230	Performance management	X			
1230	Knowledge management	X			
	Audit execution				
1300	Quality Assurance & Improvement Programme	X			Appendix 2 Ref 4
2000	Management of the IA function	X			
2200	Engagement Planning	X			
2300	Engagement delivery	X			
2400	Reporting	X			
2450	Overall opinion		X		Appendix 2 Ref 10

Conforms	X	Partially Conforms		Does Not Conform	

Blackpool Council Internal Audit Service- PSIAS Action Table   **Appendix 3**

The following points for consideration to develop the Audit Function arise from the review undertaken:

PSIAS Ref (Appendix 2)	Report ref	Point For Consideration	Responsible	Action
Code of Ethics 1000	1	Staff should formally acknowledge acceptance of the Internal Audit Code of Ethics periodically.	Audit Manager	Agreed. The Audit Manager will seek acceptance from the team on an annual basis.
1000	2	Amendments to the Charter should be considered: • Produce the Charter as a separate, strategic document which clearly reflects the requirements of the PSIAS / LGAN and can be reviewed and updated independently from the Annual Audit Plan. • Extend the Charter to include the requirements from the PSIAS (see para 4.2.1 of the report) • Update to the Charter is required to include revisions to the PSIAS which came into effect in April 2016.	Chief Internal Auditor	Agreed.

PSIAS Ref (Appendix 2)	Report ref	Point For Consideration	Responsible	Action
1110	3	Mechanisms to obtain formal feedback from the Chief Executive, Audit Committee Chair and Monitoring Officer should be established to inform the appraisal of the Chief Internal Auditor.	Chief Internal Auditor	Agreed. The Chief Internal Auditor will raise this with the Director of Resources in preparation for the next round of IPAs.
1300	4	Amendments to the QAIP should be considered: • Consideration could be given to producing the Quality Assurance & Improvement Programme (QAIP) as a separate strategic document, which can be subject to review and update as required. • A review of the current QAIP is required to ensure that it reflects the requirements of the revised Public Sector Internal Audit Standards (April 2016).	Chief Internal Auditor	Agreed.
2010	5	Clear links between the Corporate Risk Register and the nature and scope of planned audit work should be defined within the Strategic Audit Plan, Annual Audit Plan and / or the scope of specific reviews.	Chief Internal Auditor	Agreed.

PSIAS Ref (Appendix 2)	Report ref	Point For Consideration	Responsible	Action
2010	6	Consideration should be given to including the available audit days in respect of the capacity of the Chief Internal Auditor and Audit Manager within the Annual Audit Plan to fully reflect internal audit resource available and utilised.	Chief Internal Auditor	Agreed.
2010	7	An allocation in respect of consultancy reviews and services, corporate governance and risk work and counter fraud activity should be reflected in the Annual Audit Plan in order that outturn can be reported and significant deviations from the plan can be referred to the Audit Committee.	Chief Internal Auditor	Agreed.
2010	8	The scope of consultancy work should be clearly defined at the outset of each consultancy review and an Audit Opinion given at the conclusion of each review only if appropriate to do so.	Chief Internal Auditor / Audit Manager	Agreed. This will be considered at the outset of each assignment.
2050	9	All external sources of assurance should be taken into consideration as part of an assurance mapping exercise, to inform the Annual Audit opinion.	Chief Internal Auditor	Agreed.

PSIAS Ref (Appendix 2)	Report ref	Point For Consideration	Responsible	Action
	10	Consultancy reviews and services, corporate governance and risk work and counter fraud activity should be reflected in the Annual Report and included within the scope of the Annual Audit opinion.	Chief Internal Auditor	Agreed.

Blackpool Council Internal Audit Service – Additional Development Action Table
Appendix 4

During the review, the following additional points for consideration were discussed with the Chief Internal Auditor. Whilst these specific points are out of scope of the Standards / LGAN requirements, they are nonetheless contributory to the overall effectiveness and efficiency of the Internal Audit service, and are presented in this report for information and consideration only:

PSIAS Ref (Appendix 2)		Point For Consideration	Responsible	Action
16	Additional Comment	Length of Internal Audit Reports – Reports routinely contain extensive and long narrative which is time consuming to produce - Could be leaner / streamlined	Chief Internal Auditor	The Chief Internal Auditor will discuss the potential of this with the Corporate Leadership Team.
16	Additional Comment	The allocation of Internal Audit days to individual reviews appears high (20 day reviews) which may be in part due to the allocation / involvement of two officers attending scoping and drafting meetings etc. A resource / skills analysis exercise may be beneficial in identifying areas which are unnecessarily labour intensive or skills gaps which need to be addressed through training and development. This would address weaknesses	Chief Internal Auditor / Audit Manager	This will be considered as part of Audit Planning and at the outset of each audit assignment.

		identified in succession planning within the section.		
16	Additional Comment	The FCATs approach to financial systems assurance is labour intensive. However, despite the significant resource expended on this, overview / strategic recommendations are not reported in a manner which maximises the process as a continuous improvement tool and demonstrates the value that it adds to the organisation.	Chief Internal Auditor	The suite of FCAT tests has recently been reviewed to ensure that they are focused on key controls. Progress will continue to be made in terms of raising the profile of audit findings for systems with devolved control, such as debtors and purchase cards, where the FCAT process is not yet demonstrating continuous improvement.

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