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Blackpool Council

15 October 2015

To: Councillors Benson, Cox, Cross, Galley, Hunter, Matthews, O'Hara, Owen and Roberts

The above members are requested to attend the:

AUDIT COMMITTEE

Thursday, 22 October 2015 at 6.00 pm
in 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 24 SEPTEMBER 2015 (Pages 1 - 6)

To agree the minutes of the last meeting of the Audit Committee held on 24 September 2015 as a true and correct record.

3 STRATEGIC RISK REGISTER - UNSUSTAINABLE LOCAL ECONOMY / INCREASED DEPRIVATION (Pages 7 - 10)

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

4 ANNUAL AUDIT LETTER 2014/2015 (Pages 11 - 22)

To consider the Annual Audit Letter 2014/2015.

5 PROTECTING THE ENGLISH PUBLIC PURSE

(Pages 23 - 76)

To provide a summary of the key information identified in the first Protecting the English Public Purse report issued by the European Institute for Combatting Corruption and Fraud.

6 DATE OF NEXT MEETING

To note the date and time of the next meeting of the Committee as Thursday, 26 November 2015, commencing at 6.00pm.

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, Senior Democratic Governance Adviser, 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.

Present:

Councillor Galley (in the Chair)

Councillors

Benson
Cox

Cross
Hunter

Matthews
O'Hara

Owen
Roberts

In Attendance:

Mr Neil Jack, Chief Executive

Mr Steve Thompson, Director of Resources

Mr Phil Redmond, Chief Accountant

Mr Trevor Rees, Partner, KPMG

Mr Iain Leviston, Manager, KPMG

Ms Tracy Greenhalgh, Chief Internal Auditor

Ms Hilary Shaw, Head of Business Support and Resources

Mr Chris Kelly, Senior Democratic Governance Adviser (Scrutiny)

1 DECLARATIONS OF INTEREST

Councillor Hunter declared a personal interest with regard to item 4, 'Risk Services Quarter One Report – 2015/2016', the nature of the interest being that he was a Board Member of Blackpool Housing Company.

Councillor Galley declared a personal interest with regard to item 4, 'Risk Services Quarter One Report – 2015/2016', the nature of the interest being that he was a Board Member of Blackpool Transport Company.

2 MINUTES OF THE LAST MEETING HELD ON 18 JUNE 2015

The Committee agreed that the minutes of the last meeting held on 18th June 2015 be signed by the Chairman as a correct record.

3 UPDATE ON FRAMEWORK-I PHASE 2 IMPLEMENTATION

Ms Shaw, Head of Business Support and Resources, presented a report to the Committee detailing the actions taken to address the recommendations of the Internal Audit report on Framework-i Phase 2 Implementation dated 27 January 2015.

It was explained to Members that the internal audit report had contained 11 recommendations. One of those recommendations had been considered a Priority One recommendation, which was that the rationale of commissioning decisions for children's placements, including the providers that had been considered and why one provider had been selected over another, should be recorded.

Ms Shaw advised the Committee that all recommendations had now been addressed and actions had been undertaken as appropriate. It was noted that the Chief Internal Auditor

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had signed off the Priority One action as completed at the end of August 2015.

Members raised a number of questions and it was noted that care providers had clauses in their contracts to prevent them charging top up payments to service users or their families in respect of care. It was also considered that Adult Services would not want to move people in residential care due to their inability to pay top-up fees if it would be detrimental to their health, so would negotiate with the care provider on waivers to top-up payments as necessary.

The Committee, in relation to recommendation five of the internal audit report, questioned whether formal minutes of the Quality Monitoring Group's meetings were produced and if they were not, would it be appropriate for them to be properly recorded in such a way. Ms Shaw advised that the internal audit had not recommended that formal minutes of those meetings be produced and that she would have to seek the opinion of the Head of Social Care as to the appropriateness of doing so.

Upon further questioning from Members, Ms Shaw reported that she considered that the internal audit report had identified some areas where improvements had been required and that the report on the next phase of Framework-i was due in November.

The Committee agreed to note the updates on the actions taken.

Background papers: None

4 RISK SERVICES QUARTER ONE REPORT - 2015/2016

Ms Greenhalgh, Chief Internal Auditor, presented the Committee with an overview of the Risk Services Report for the first quarter of 2015-2016.

Ms Greenhalgh reported on the key internal audits that had been scoped in the first quarter and for which preparatory work had commenced. Members were also provided with details of service developments with regards to Corporate Fraud, the related recruitment exercise undertaken by the service in order to appoint an Insurance Fraud Officer and the procurement of a system to facilitate the investigation of insurance fraud.

Ms Greenhalgh reported on the Key Performance Indicators for the service. She advised that, although still not quite on target, 80% of business continuity plans were up to date as of the date of the meeting and that 100% of risk registers had been revised and were up to date. Members' attention was also drawn to the Corporate Fraud Team statistics.

Members questioned the reasons for only 53% of the Places directorate business continuity plans being completed. Ms Greenhalgh advised that this was due to resource issues within the directorate but that she had been working with the directorate's Risk Champion and, as of the day of the meeting, the completion rate had risen to 70%. The Committee also raised questions regarding a number of performance indicators of which the 2015/2016 actual measure appeared to be a long way short of the target. Ms Greenhalgh explained that those targets were annual targets and it was expected that the actual measure would increase throughout the year.

The Committee was advised that there had been two inadequate assurance statements

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issued within the quarter. Those inadequate assurance statements related to Income and Debt Management, for which it was noted there was a wide array of procedures in place across the Council, with varying levels of performance. It was considered that there were inadequate controls in place and major lapses in compliance with the controls on some services. The other inadequate assurance statement related to Housing Options, which was considered to have inadequate controls in place in relation to having an appropriate system in place for financial management. However, Ms Greenhalgh advised that planned improvements, which included the introduction of new software packages for service and financial management, should help enable more robust controls in future. An update on the implementation of improvements resulting from the internal audits would be presented to Members at a future Committee meeting.

Members raised questions with regards to the performance of the Estate Management service in relation to the Internal Audit review of Income and Debt Management. Members were advised that Estate Management was not the only service area to not have been performing adequately in its income and debt management, but that there had been issues within that service relating to the timeliness of raising income. Mr Thompson, Director of Resources, advised that he chaired an Income and Debt Strategy Group, which had been responsible for commissioning the internal audit review and had the objective of ensuring consistency of income and debt management across the Council. The Group had actioned the areas where improvements were required, which had included some personnel changes and a restructure of Property Services. He noted that due to the size of the organisation and the level of income it generated, it would be inevitable that some debts would occasionally need to be written off. However, it was considered that the Council could improve its performance in this area.

The Committee challenged the adequate assurance statement of the Children's Services Social Care improvement Plan, in light of Internal Audit's concerns that the Improvement Plan was not reflected in the Service Risk Register and its assertion that action should be taken to ensure that outstanding milestones were completed. Members were advised that this was due to the outstanding milestones being considered lower risk and Mr Jack, Chief Executive, explained the background to the Improvement Plan to Members. It was noted that the Improvement Board had disbanded following the Department for Education's Notice to Improve Order, in respect of the Council's Safeguarding Service, being lifted. However, there remained a number of outstanding milestones to be transferred into the updated plans of the appropriate body within the Council, in order to ensure they were completed.

The Committee agreed to note the report and requested that progress against the Priority One recommendations that arose from the Income and Debt Management and Housing Options Internal Audit reports be presented to Members at future Committee meetings.

Background papers: None

5 EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) AND STATEMENT OF ACCOUNTS 2014-2015

The Committee considered KPMG's Governance Report and the audited Statement of Accounts for 2014-2015. Mr Thompson, Director of Resources, summarised the key aspects of the Statement of Accounts and highlighted the changes that would be made

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for 2016/2017, which would include the valuation of roads in the Transportation Infrastructure assets valuation. It was noted that this should add approximately £800 million to the value of assets and reserves in the balance sheet.

Members raised questions regarding Treasury Management and were advised that the Treasury Services continuously looked to borrow at more favourable interest rates and that the Authority had very few Lender Option Borrower Option loans, which would have been attractively priced at the time they were taken.

The Committee questioned the reasons for the Council not applying for any supported capital expenditure approvals in order to borrow for capital purposes in 2014/2015. Mr Jack advised that borrowing support was not provided for this type of funding and any money received from the scheme required repayment. He explained that some authorities had used the borrowing in order to fund their redundancy costs. However, Blackpool Council had not needed to do this as redundancy payments had been able to be met through earmarked reserves.

The Committee noted the management fee received by the Council for its provision of payroll services for a number of organisations within the borough and across Lancashire and queried whether the Council was actively looking to sell its services more widely. Mr Jack advised that some service areas were actively looking to do this and highlighted the example of Positive Steps, which had recently helped to recruit positions for Sainsbury's.

The Committee raised concerns regarding the potential financial implications relating to the Highfield Humanities College PFI scheme, in light of the school's conversion to an academy. Members were advised that the arrangements relating to this were likely to be highly complex and that external support would potentially be required. However, it was noted that at the outset, the project had demonstrated value for money.

Mr Rees, Partner, KPMG, commented that the financial reports had been of a high quality and thanked Council officers for their help and co-operation throughout the audit process. He explained that the External Auditor's report had summarised the key findings from two areas, namely the audit work in relation to the Council's financial statements for 2014-2015 and its arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

The Committee discussed the recommendations contained within the report and Mr Rees noted there were no Priority One recommendations. The Committee noted one of the recommendations related to payroll reconciliation segregation of duties and questioned whether this issue should be considered a more pressing concern for the Authority. It was reported to Members that management had been aware of the issue but that with reduced staffing levels, segregation of duties would prove increasingly difficult. However, Mr Jack advised that there were multiple system and software controls in place that prevented the issue posing a significant risk to the Council.

The Committee also discussed the KPMG recommendation regarding recognition of school assets. Mr Rees explained that, under new accounting guidance that had been issued by CIPFA on the recognition of voluntary aided schools in local authority balance sheets. Under KPMG's interpretation of the guidance, it was considered that two primary schools, St. John Vianney and St. Kentigerna, should not be recognised by the Council.

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Upon questioning from Members, Mr Rees considered that this would only have a small effect on the Council financially and that the impact on the schools' operations would be minimal.

Mr Rees reported that KMPG anticipated that an unqualified audit opinion on the Authority's financial statements and Value for Money conclusion would be issued by 30 September 2015.

The Committee agreed to approve the audited Statement of Accounts for 2014-2015.

Background papers: None

6 STRATEGIC RISK REGISTER

Ms Greenhalgh presented the Council's revised Strategic Risk Register for the Committee's consideration.

It was explained that when the Strategic Risk Register was last approved by the Corporate Leadership Team on 13 October 2014, it was decided that a more in-depth review of the content and format of the register should be undertaken. The revised Strategic Risk Register now included outcomes from that review.

Ms Greenhalgh also advised that in the past, the Finance and Audit Committee had required risk owners to attend Committee meetings on a periodic basis to provide an update in terms of how each risk was being managed. Members were invited to consider continuing this arrangement.

The Committee agreed to approve the Council's Strategic Risk Register and request that risk owners be required to attend Committee meetings to discuss progress against addressing each risk on a periodic basis.

Background papers: None

7 COUNCIL TAX REDUCTION SCHEME - PROSECUTION POLICY

Ms Greenhalgh introduced the policy that set out the Council's approach with regards to sanctions and prosecutions for Council Tax Reduction fraud. It was explained that the Council's previous Sanctions and Prosecution Policy, which had been approved in 2013 would be superseded by the revised version, if approved. The updated policy no longer referred to housing and council benefit fraud, which were now the responsibility of the Department for Work and Pensions.

Upon questioning from the Committee, Ms Greenhalgh advised that currently there was not any potential scope for joint investigatory work with the Department for Work and Pensions Investigations Team. However, the Council did have a close working relationship with the Department for Work and Pensions and would continue to communicate relevant information as required.

The Committee agreed to approve the Council Tax Reduction Scheme Prosecution Policy.

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Background papers: None

8 PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Ms Greenhalgh advised the Committee that the Public Sector Internal Audit Standards required that an external assessment of an organisation's internal audit function was undertaken once every five years by a qualified, independent assessor or assessment team. Ms Greenhalgh explained the options available for how the external assessment was undertaken and the Committee considered that a part in a peer review process, which would incur no direct costs to the Authority.

The Committee agreed to approve that Blackpool Council participate in the peer review process developed by the North West Chief Audit Executives Group (NWCAE) which would address the requirement of a self-assessment with independent external validation.

Background Papers: CIPFA Local Government Application Note for the UK Public Sector Internal Audit Standards.

9 DATE OF NEXT MEETING

The Committee noted the date of the next meeting as 6pm on Thursday 22 October 2015 at Town Hall, Blackpool.

Chairman

(The meeting ended at 7.20 pm)

Any queries regarding these minutes, please contact:

Chris Kelly, Senior Democratic Governance Adviser

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Report to:	AUDIT COMMITTEE
Relevant Officers:	Alan Cavill, Director of Place Steve Thompson, Director of Resources John Blackledge, Director of Community and Environment
Date of Meeting	22 October 2015

STRATEGIC RISK REGISTER – UNSUSTAINABLE LOCAL ECONOMY / INCREASED DEPRIVATION

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 Place, Director of Resources and Director of Community and Environment on identified risks on the Strategic Risk Register in relation to changes to legal or regulatory services.

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 Priority is:

- Deliver quality services through a professional, well-rewarded and motivated workforce

5.0 Background Information

5.1 At its meeting in September 2015, 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

No	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	Reporting Corporate Risk Management	Target Date	Corporate Priority		
						I	L	GS		I	L	NS								
8	Unsustainable Local Economy / Increased Deprivation.	8b	Lack of affordable housing.	Negative impact on local economy.	Key in the regeneration of Blackpool.	4	4	16	ALMO Stock.	4	3	12	Embed the new Housing Regeneration Company to help transform private sector housing.	Head of Strategic Housing	Director of Place	Philp Welsh	Sept 2015	Improve housing standards		
				Potential criminal activities.	Revitalise areas in the town.				Regulation of private sector / link with RSLs.				Complete the build of the provision of 400 new family homes on the Rigby Road site.	Head of Strategic Housing	Director of Place	Philp Welsh	Ongoing			
				Inability to regenerate Blackpool.				Expansion of affordable housing programme.				Continue with the refurbishment of 400 homes under the Decent Homes initiative.	Head of Strategic Housing	Director of Place	Philp Welsh	Ongoing				
				8b	Increased deprivation and unemployment	Dependency on Council services.		4	4	16	Introduction of living wage for Council staff and promoting this with contractors.	4	3	12	Delivery of actions in the Local Economy Action Plan.	Head of Economic Development	Director of Place	Philip Welsh	Ongoing	Encouraging responsible entrepreneurship
										Commitment to use local suppliers where possible.				Completion of the Central Business District Project.	Head of Property and Asset Management	Director of Resource	Paul Jones	Ongoing		
				8c	Lack of appropriate transport infrastructure.	Loss of trade, reputation and confidence from residents.		4	4	16	Highways Asset Management Plan in place.	4	3	12	Appropriate work undertaken to maintain the condition of the highways infrastructure.	Highways Lead Officer	Director of Community and Environment	John Hawkin	Ongoing	Deliver quality services

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Report to:	AUDIT COMMITTEE
Relevant Officer:	Iain Leviston, Manager, KPMG
Date of Meeting	22 October 2015

ANNUAL AUDIT LETTER 2013/14

1.0 Purpose of the report:

1.1 To consider the Annual Audit Letter 2014/15.

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 2014/15 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 2014/15 audit of the Council.

4.0 Council Priority:

4.1 The relevant Council Priority is:

- Deliver quality services through a professional, well-rewarded and motivated workforce

5.0 Background Information

5.1 The External Auditor’s Annual Audit Letter summarises the key issues arising from the 2014/15 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 4(a).

Does the information submitted include any exempt information?

No

List of Appendices:

Appendix 4 (a): Annual Audit Letter 2014/15.

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



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Annual Audit Letter 2014/15

Blackpool Council

October 2015

The contacts at KPMG in connection with this report are:

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Report sections

- Headlines

Appendices

1. Key issues and recommendations
2. Summary of reports issues

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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. The Audit Commission 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.psa.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 Trevor Rees, the engagement lead to the Authority, who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. If you are dissatisfied with how your complaint has been handled you can access PSA's complaints procedure by emailing generalenquiries@psa.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.

This report summarises the key findings from our 2014/15 audit of Blackpool Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2014/15 financial statements and the 2014/15 VFM conclusion.

<p>VFM conclusion</p>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 28 September 2015. This means we are satisfied that that Authority had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity.</p>
<p>VFM risk areas</p>	<p>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.</p> <p>Our work identified one significant matter, the Authority's savings plans. We reviewed the savings made by the Authority in 2014/15 and confirmed that 100% of the intended savings had been delivered. We also confirmed that there were plans in place to meet the full 100% of the savings requirement for 2015/16, and that these plans were on schedule to be fully delivered by the year-end. We also reviewed the medium term financial plan which runs to 2017/18, and assessed the method for its compilation and the assumptions contained within it were reasonable.</p>
<p>Audit opinion</p>	<p>We issued an unqualified opinion on the Authority's financial statements on 28 September 2015. 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 subsidiary companies including Blackpool Transport, Blackpool Coastal Homes, Blackpool Entertainment Company and Blackpool Operating Company (Sandcastle Waterpark).</p>
<p>Financial statements audit</p>	<p>Our audit of the Authority identified one significant risk as required by auditing standards, the risk of management override of control. Our audit methodology addresses this risk through the testing of controls and substantive procedures over journals, accounting estimates and significant unusual transactions. The other standard risk identified by professional standards, the fraud risk of revenue recognition, was rebutted as we did not identify an incentive to fraudulently recognise revenue.</p> <p>We also identified three areas of other audit focus, these being payroll, property, plant and equipment and cash. We completed our work in these areas and found no significant issues.</p>
<p>Annual Governance Statement</p>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>

We provide a summary of our key recommendations in Appendix 1.

All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

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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.
High priority recommendations	<p>We raised no high priority recommendations as a result of our 2014/15 audit work. There were also no high priority recommendations raised in 2013/14 to follow up.</p> <p>Three medium graded recommendations were made and are detailed in Appendix 1 together with the action plan agreed by management. We will formally follow up these recommendations as part of our 2015/16 work.</p>
Certificate	We issued our certificate on 28 September 2015. The certificate confirms that we have concluded the audit for 2014/15 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our fee for 2014/15 was £146,870, excluding VAT. This was the scale fee set by the Audit Commission and is consistent with 2013/14.

Appendix 1: Key issues and recommendations

This appendix summarises the medium priority recommendations that we identified during our 2014/15 audit, along with your responses to them.

Low priority recommendations are contained in our other reports, which are listed in Appendix 2.

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No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Payroll reconciliation segregation of duties</p> <p>It was identified from review of the monthly payroll reconciliations, the same individual prepares and authorises the reconciliation. There is a risk that the payroll inaccuracies are not being followed up correctly along with a risk of fraud with no segregation of duties being identified.</p> <p>Recommendation</p> <p>We recommend that the Authority implement a segregation of duties during this reconciliation. We are aware the initial preparer left the Authority last year and that finance are aware of this issue.</p>	<p>Management response</p> <p>We are aware of this issue. However, with reduced levels of staff, segregation of duties is proving more difficult. This situation will worsen in future years due to the forecast levels of cuts required. We will review the procedures for 2015/16.</p> <p>Responsible officer</p> <p>Phil Redmond</p> <p>Due date</p> <p>March 2016</p>

This appendix summarises the medium priority recommendations that we identified during our 2014/15 audit, along with your responses to them.

Low priority recommendations are contained in our other reports, which are listed in Appendix 2.

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No.	Issue and recommendation	Management response / responsible officer / due date
2	<p>Disabling leavers on finance system</p> <p>From the IT review of the finance system, seven leavers were identified as having left the Authority but had not had their access to the finance system disabled. Although we have gained assurance that these leavers were removed in a timely basis, there is a risk that leavers can access confidential information after they have left.</p> <p>Recommendation</p> <p>We understand that finance has strengthened its procedures for reviewing the list of leavers provided by HR to ensure all leavers with finance system access are identified.</p> <p>However, we recommend that the Authority examine the issue of system access on an Authority-wide basis to identify a way for system administrators to be notified of leavers with access to their system automatically, removing the need for these administrators in finance, and other departments of the Authority, to individually scan review lists of all members of staff who have left the Authority and identify those that are relevant to their system. This will make the process more efficient for the Authority as a whole.</p>	<p>Management response</p> <p>A review of the financial systems procedures have taken place and procedures have been strengthened to prevent this occurring in future. However, we welcome KPMG’s proposal for an Authority-wide review to identify ways to make the process more efficient.</p> <p>Responsible officer</p> <p>Carmel McKeogh / Tony Doyle</p> <p>Due date</p> <p>March 2016</p>

This appendix summarises the medium priority recommendations that we identified during our 2014/15 audit, along with your responses to them.

Low priority recommendations are contained in our other reports, which are listed in Appendix 2.

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No.	Issue and recommendation	Management response / responsible officer / due date
3	<p>Recognition of school assets</p> <p>New accounting guidance was issued by CIPFA on the recognition of voluntary aided schools in local authority balance sheets. We reviewed the status of the voluntary aided schools identified in the Council's balance sheet.</p> <p>Of these, there were two schools (St John Vianney and St Kentigerns, both Catholic primary schools) that, in our interpretation of the guidance, should not be recognized by the Council. This is because the Lancaster Diocese has not relinquished the rights its ownership of the school conveys.</p> <p>There is a risk that the Authority have overstated assets by recording long-term school assets to which the Council does not have the risks and rewards of ownership.</p> <p>Recommendation</p> <p>We recommend the Authority reviews its accounting treatment of the two schools affected, and considers whether a change in accounting treatment should be adopted in the 2015/16 financial statements.</p>	<p>Management response</p> <p>These schools were brought onto the balance sheet in 2001/02 on the instruction of the Audit Commission. Although the assets are not owned by the Authority, we believe that the Authority receives economic benefits and future provision of service. Therefore they remained on the balance sheet. We will review the accounting treatment of these schools in 2015/16.</p> <p>Responsible officer</p> <p>Phil Redmond / David Fish</p> <p>Due date</p> <p>March 2016</p>

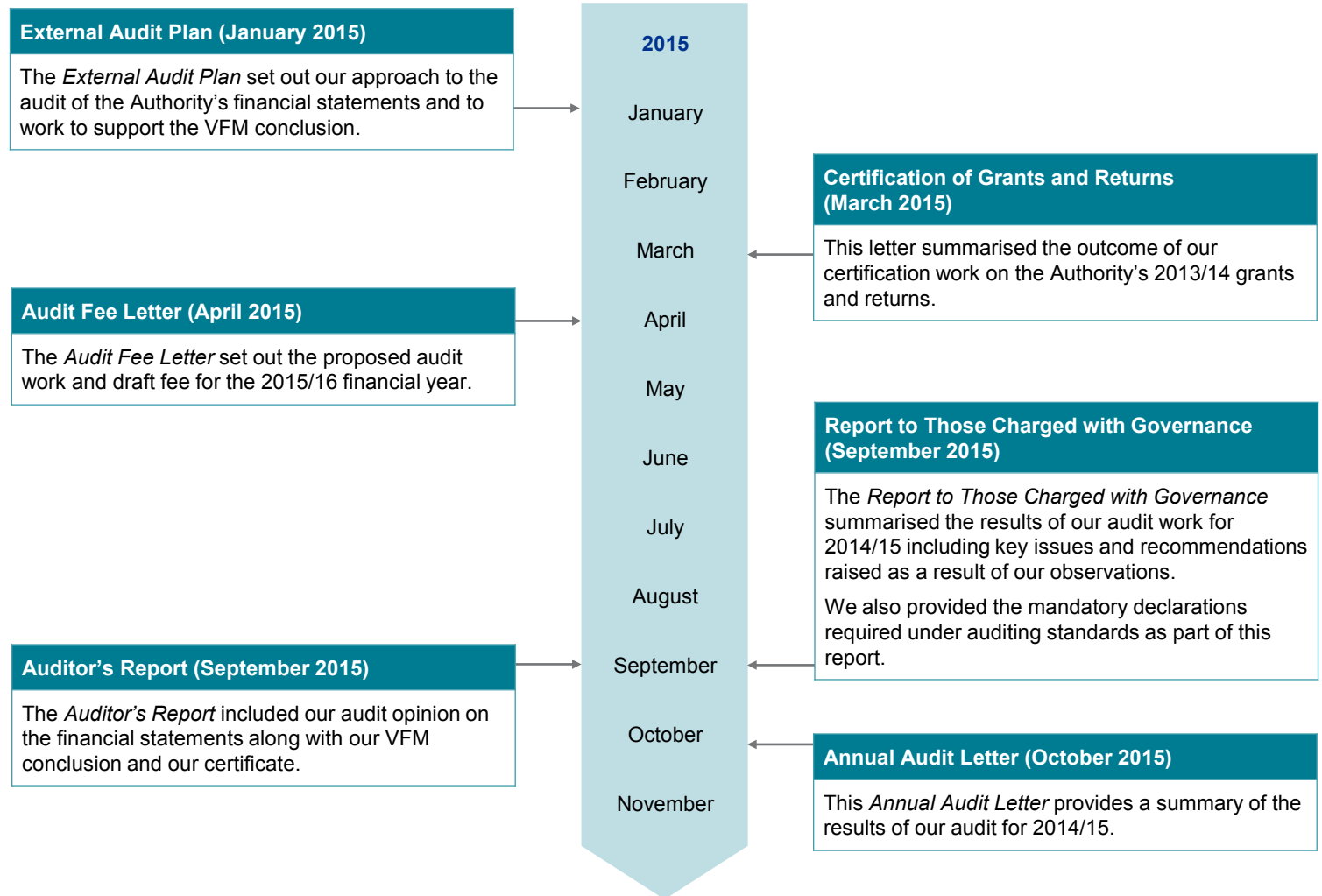
Follow up of previous recommendations

As part of our audit work we followed up on the Authority's progress against the medium priority audit recommendation made in 2013/14. We are pleased to report that the Authority has taken appropriate action to address the issue.

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

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Report to:	Audit Committee
Relevant Officer:	Tracy Greenhalgh – Chief Internal Auditor
Date of Meeting	22 nd October 2015

PROTECTING THE ENGLISH PUBLIC PURSE 2015

1.0 Purpose of the report:

1.1 This report provides a summary of the key information identified in first Protecting the English Public Purse report issued by the European Institute for Combatting Corruption and Fraud (TEICCAF).

2.0 Recommendation(s):

2.1 To consider the findings of the national report.

3.0 Reasons for recommendation(s):

3.1 The report provides information relating to the national context of counter fraud work which can help inform the work undertaken by Blackpool Council.

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 Priority is 'Deliver quality services through a professional, well-rewarded and motivated workforce'.

5.0 Background Information

5.1 In total, English Councils detected fewer cases of fraud in 2014/15 compared with the previous year. However, their value increased by more than 11%. The report analyses the types of fraud most prevalent in Local Authorities and makes recommendations as to what actions need to be taken to strengthen the fraud response across England.

The report identified that the top five issues faced by Councils in tackling fraud include:

- Capacity (sufficient counter fraud resource).
- Better data sharing.
- Effective fraud risk management.
- Capability (having appropriate counter fraud skill sets).
- Corporate appreciation of the financial benefits of tackling fraud.

A number of recommendations were made in the report for local authorities to consider and these included:

1. Use the checklist included in the report for Councillors, senior officers and others responsible for audit and governance to review their counter fraud arrangements.
2. Use the tailored benchmarking comparative analysis to be provided by TEICCAF once available.
3. Assess their own strategy in the context of the national Fighting Fraud Locally 2015 strategy.
4. Give consideration to the social harm caused by fraud when they determine their overall strategy to tackle corporate fraud.
5. Accelerate re-focusing of counter fraud activities towards non-benefit (corporate) frauds.
6. Record and report fraud as fraud.
7. Celebrate and promote their performance in detecting fraud and corruption.
8. Assess their exposure to right to buy and no recourse to public funds fraud.

At Blackpool Council the fraud risk assessment is currently being reviewed and steps will be taken to incorporate the above actions into the work programme for the coming year.

Does the information submitted include any exempt information?

No

List of Appendices:

Appendix 1 – Protecting the English Public Purse 2015

6.0 Legal considerations:

6.1 All work undertaken by Risk Services is in line with relevant legislation. This is particularly important when undertaking fraud investigations where a number of regulations need to be adhered to.

7.0 Human Resources considerations:

7.1 The Corporate Fraud Team has reduced considerably in size since the transfer of benefit fraud investigation to the Department for Work and Pensions. Therefore, fraud work is risk assessed to match the resource available.

8.0 Equalities considerations:

8.1 N/a

9.0 Financial considerations:

9.1 N/a

10.0 Risk management considerations:

10.1 An annual fraud risk assessment is undertaken to focus the corporate fraud work each year. However delivery of this is limited by the number of reactive investigations that need to be undertaken each year, balanced with the limited resource available.

11.0 Ethical considerations:

11.1 N/a

12.0 Internal/ External Consultation undertaken:

12.1 N/a

13.0 Background papers:

13.1 N/a

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Protecting the English Public Purse 2015

Fighting fraud against English Councils



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SUMMARY AND RECOMMENDATIONS

This is the first Protecting the English Public Purse (*PEPP 2015*) report by The European Institute for Combatting Corruption And Fraud (TEICCAF).

PEPP 2015:

- has been developed by the former counter fraud team of the Audit Commission, now part of TEICCAF;
- continues the national series of reports previously published by the Audit Commission; and
- reports on **national, regional and local** fraud detection by English councils.

In total, English councils detected fewer cases of fraud in 2014/15 compared with previous year. However, their value increased by more than 11 per cent. In particular:

- the number of detected cases fell by more than 18 per cent to over 84,000 while their value increased by more than 11 per cent to greater than **£207 million**;
- the number of detected cases of **housing benefit and council tax benefit** fraud fell by more than half to just over 27,000 while their value fell by almost 17 per cent to nearly £23.5 million. This decline was expected; and
- the number of detected cases of non-benefit (corporate) fraud decreased by greater than 8 per cent to more than 57,000, while their value increased by greater than 63 per cent to more than £97 million.

**English Councils
detected fewer cases of
fraud in 2014/15, but the
value increased**

Councils detected fewer housing tenancy frauds in 2014/15. In particular:

- 2,993 tenancy frauds were detected, a more than 1 per cent decrease on the previous year; and
- London continues to detect more tenancy fraud than the rest of the country combined.

Regional and local fraud detection results suggest an emerging divergence in the capacity, capability and commitment of some councils to play an effective part in the fight against fraud. Using a series of proxy indicators we found that:

- London achieved the highest participation rate (93.9 per cent) in our voluntary detected fraud survey, the highest proportion of corporate fraud teams (93.5 per cent) and proportionately detected the most fraud relative to council spend;
- two regions where fewer than half of all councils had corporate fraud teams both detected proportionately fewer frauds than their expenditure levels would suggest; and
- evidence that neighbouring councils with similar socio-economic and demographic characteristics are detecting markedly different levels of corporate fraud.

London detected the most fraud... relative to council spend

Right to Buy (RTB) and No Recourse to Public Funds (NRPF) have emerged as significant areas of fraud risk for councils. In particular:

- RTB detected fraud cases more than **doubled** to 411, while their value increased by nearly 145 per cent to more than £30 million;
- we estimate that at least **3 per cent** of RTB applications in London are fraudulent, at least **1.5 per cent** in the rest of the country;
- legislative proposals to extend RTB to housing associations is likely to result in similar levels of RTB fraud to that encountered by councils. However, with a few notable exceptions, housing associations **do not** have the counter-fraud capacity or capability equivalent to councils to tackle such fraud; and
- NRPF is a new sub-category of fraud. Relatively few councils pro-actively targeted this type of fraud in 2014/15 yet there were still **444 cases** detected with a value more than £7 million.

RTB fraud detected was more than £30m, an increase of 145%

Recommendations

Councils should:

- use our checklist for councillors, senior officers and others responsible for audit and governance (Appendix 1) to review their counter-fraud arrangements;
- use our free, tailored benchmark comparative analysis (available from autumn 2015) to challenge poor performance;
- assess their own strategy in the context of the national *Fighting Fraud Locally 2015* strategy;
- give consideration to the social harm caused by fraud when determining their overall strategy to tackle corporate fraud;
- accelerate re-focusing of counter fraud activities towards non-benefit (corporate) frauds;
- record and report fraud as fraud;
- celebrate and promote their performance in detecting fraud and corruption; and
- assess their exposure to RTB and NRPF fraud risks.

**Give consideration to
the social harm caused
by fraud**

Government should:

- work in partnership with TEICCAF to better understand the nature and scale of RTB and NRPF frauds; and
- acknowledge and address the fraud exposure of housing associations to proposed changes to RTB legislation.

TEICCAF will:

- collate, assess and disseminate good practice in tackling fraud;
- highlight the innovative good practice in tackling fraud that councils develop as a result of the recent DCLG challenge funding;
- work with our partner organisation, the Institute of Revenues, Rating and Valuation (IRRV) and Local Authority Investigating Officers Group (LAIOG), to better understand the nature and scale of business rate fraud/avoidance;
- annually track changes in tenancy fraud detection by regions;
- work in partnership with councils across England to develop *PPP* style reports for all regions;
- work in partnership with national regulators and other key stakeholders to develop national *PPP* style reports for Scotland, Wales and Northern Ireland;
- work with metropolitan districts and unitary authorities to increase their participation rate in our annual detected fraud and corruption survey;
- work in partnership with councils to promote the importance of counter fraud activities in those regions where more can be done to strengthen fraud detection;
- work in partnership with key stakeholders to develop a greater understanding of the nature and scale of RTB and NRPF frauds;
- develop guidance and provide support to tackle fraud and corruption, drawing upon the knowledge of national experts;

Develop both regional and national PPP reports in partnership with key stakeholders

Develop a greater understanding of the nature and scale of RTB and NRPF frauds

- work with partner organisations to develop new fraud prevention and deterrence tools;
- work with councils to support the development of corporate fraud teams;
- work with key stakeholders to develop a methodology to assess the financial impact of fraud prevention activities; and
- publish information and guidance to raise public awareness and understanding of good practice in tackling fraud.

CHAPTER 1: INTRODUCTION

This is the first Protecting the English Public Purse (PEPP) report by The European Institute for Combatting Corruption And Fraud (TEICCAF). The former counter-fraud team of the Audit Commission, the previous authors of the Protecting the Public Purse series of reports, have joined with TEICCAF to continue publishing information on fraud and corruption detection by English councils.

1. National *Protecting the Public Purse (PPP)* reports have played an important role in the fight against local authority fraud over the last 25 years. Published by the Audit Commission, the last report was published in 2014. The Audit Commission was abolished in March 2015.
2. *PPP* reports identified trends in fraud detection, highlighted and disseminated good practice in tackling fraud and identified current and emerging fraud risks.
3. In November 2014 the Chartered Institute of Public Finance and Accountancy (CIPFA) withdrew from an agreement to continue the counter-fraud work of the Audit Commission, including *PPP*. This potentially left a gap in local authorities' knowledge of current and emerging fraud trends.
4. In response to this and other concerns, a number of stakeholder organisations came together to form, '*The European Institute for Combatting Corruption And Fraud*' (TEICCAF). This includes the former counter-fraud team of the Audit Commission. TEICCAF agreed to continue the *PPP* series of reports, now called *Protecting the English Public Purse (PEPP)*, and the annual detected fraud and corruption survey. Further information on TEICCAF can be found in Chapter 7.

5. This continuation of the Audit Commission's counter fraud work through TEICCAF has met with a significant amount of approval. For example:

“As the last Controller of the Audit Commission, I can confirm that the Protecting the Public Purse report series and the annual detected fraud survey had a significant and beneficial impact for English councils in their fight against fraud. The Commission's counter-fraud work was award winning, and the counter-fraud team that led on it were rightly recognised as national authorities on the collection, analysis and dissemination of such information.

While it was unfortunate that the detected fraud survey and PPP reports finished with the Commission's closure in 2015, it is greatly encouraging that TEICCAF, which includes the former counter fraud team of the Audit Commission, have stepped in to continue this valuable work. I encourage all local authorities to support this initiative.”

- Marcine Waterman,

Former Controller of the Audit Commission

6. In *PEPP 2015* our focus is to report year-on-year changes in cases and values of detected fraud, as well as highlighting longer term trends and regional developments. In future years we will focus on the identification and sharing of good practice.
7. *PEPP 2015* is for those with overall responsibility for tackling fraud and corruption at councils, including councillors. Above all, it aims to help local authorities understand the fraud risks they face and to assist the development of appropriate and proportionate counter-fraud arrangements at councils.

8. The National Policing Fraud Strategyⁱ 2015 sets out a comprehensive framework through which fraud can be addressed. This strategy tackles the problem of fraud on a national, regional and local level. TEICCAF endorses this approach. *PEPP 2015* follows a similar structure. It provides:

- guidance on the interpretation of detected fraud and corruption data (Chapter 2);
- the amount of detected fraud reported **nationally** by local authorities in England in 2014/15 compared with 2013/14, including longer term trends (Chapter 3);
- data on **regional** trends in detected fraud (Chapter 4);
- data on **local** trends in fraud detection (Chapter 5);
- information on two significant emerging fraud threats, Right to Buy (RTB) and No Recourse to Public Funds (NRPF) (Chapter 6);
- outlines the support that TEICCAF will provide to assist the long-term development of robust and proportionate arrangements in the fight against fraud (Chapter 7); and
- contains a checklist for councils to assess their counter-fraud arrangements (Appendix 1).

9. Appendix 2 to this report summarises the fraud survey methodology and the information extrapolation approach we adopted to ensure comparability and continuity with Audit Commission trend data. Appendix 2 also provides information on our proxy indicator for RTB fraud.

The closure of NFA in March 2014 and the Audit Commission a year later created a significant gap...in the fight against fraud

A perfect storm for councils – the changing counter-fraud landscape

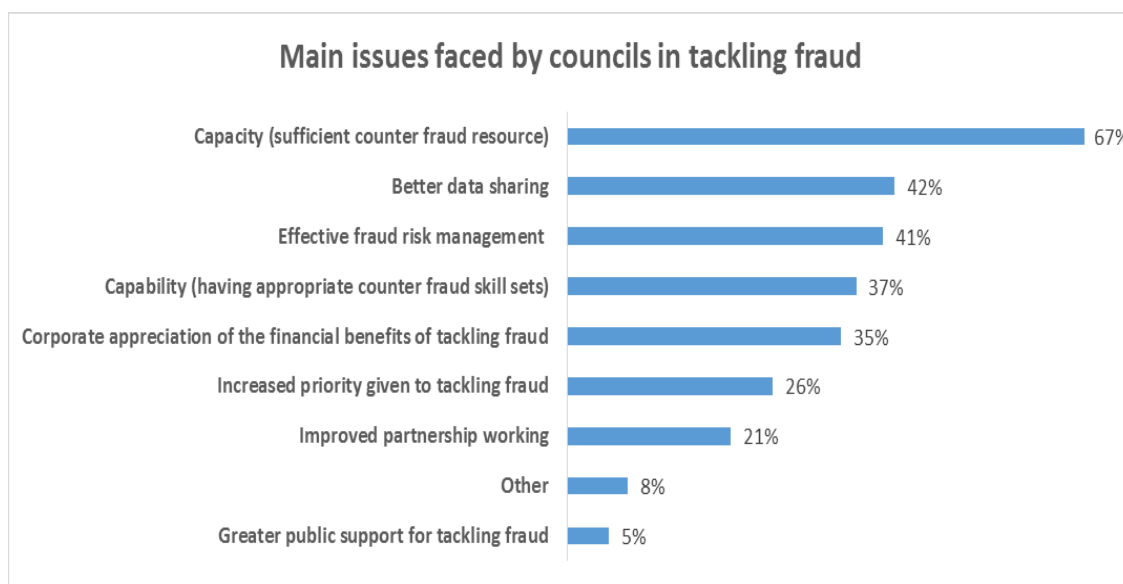
10. Recent years have witnessed significant changes in the counter-fraud landscape in local government. The closure of the National Fraud Authority in March 2014 and the Audit Commission a year later created a significant gap in the support, advice and leadership available to councils in the fight against fraud.

11. Local authorities have been subject to significant funding reductions since 2010, with more to come. *PPP 2014* reported a near 20 per cent reduction in counter-fraud investigators in councils in the four years up till March 2014.
12. Arguably the most important change for councils has been the transfer of most of their benefit fraud investigators to the Single Fraud Investigation Service (SFIS), which is managed by the Department for Works and Pensions. The transition to the SFIS began in July 2014 and will be complete in March 2016. In *PEPP 2015* we note the impact this change is beginning to have on local authority's fraud detection performance.
13. Longer term technological improvements in service delivery are also rapidly changing the fraud risk landscape, including the increasing adoption of digital technology by local authorities. The internet has transformed the ease with which fraudsters can operate across bordersⁱⁱ. TEICCAF will work with local authorities to better understand and mitigate the cyber related fraud risks that have arisen as a result.
14. There have also been positive developments. In November 2014 the Department for Communities and Local Government (DCLG) awarded £16 million to local authorities through a challenge fund. Councils that successfully bid received a share of this fund to support their efforts to re-focus their counter-fraud activities on non-benefit (corporate) frauds during the SFIS implementation. In future years we will highlight the innovative good practice that successful councils have developed using this fund.
15. In 2015, the new *Fighting Fraud Locally* strategy will be launched. This is a new three year national strategy to tackle local authority fraud. We encourage all councils to consider this strategy as part of their own arrangements to tackle fraud.

The main issues councils face in tackling fraud

16. Our 2015 survey asked councils to identify the top three issues they face in tackling fraud. Two thirds of councils stated that the single most important factor is capacity (sufficient counter fraud resource) (Figure 1). Capacity was also the main issue last year. It is likely that the transfer of council counter fraud staff to SFIS is driving this continuing concern.

Figure 1: Main issues faced by councils in tackling fraud



17. However, SFIS also provides an opportunity for councils to focus resources away from housing benefit fraud and towards all the non-benefit (corporate) fraud risks they face.

Non-benefit (corporate) frauds have a far greater direct financial and harm impact on local people

18. Although tackling housing benefit fraud is important, non-benefit (corporate) frauds have a far greater direct financial and social harm impact on local people and local taxpayers. This re-focusing by councils towards frauds that have a significant and direct local impact is to be welcomed. Figure 2 provides more information on this long term trend.

19. Nationally, less than half (45.7%) of councils have a corporate counter fraud team tackling non-benefit fraud. However, this is not consistent across all regions. In London, 93.5 per cent of councils have a corporate fraud team. By comparison just 37.4 per cent of councils in the rest of the country have a corporate fraud team. We will continue to monitor this situation and work with councils to support development of corporate fraud teams.
20. Interpreted properly, detected fraud and corruption results can be instructive in identifying trends and emerging risks in fraud. Such data provide an important and robust evidence base for councils to inform their own proportionate and strategic response to fraud. However, there remains the risk that such information can be misunderstood and the wrong conclusions drawn. Chapter 2 provides a framework that councils can use to better understand and interpret detection trends.

CHAPTER 2: INTERPRETING FRAUD DETECTION RESULTS

Fraud detection results provide only part of the overall picture of how effective regions, and individual councils, are in tackling fraud. Detection results can be open to misinterpretation. Counter-intuitively, our experience shows that those councils that detect the most fraud are also often among the most effective at fraud prevention and deterrence. Generally, local authorities with particularly high levels of non-benefit fraud detection are typified by a strong corporate commitment to the fight against fraud.

21. There are a number of factors that affect the level of fraud councils detect. These include:

- the level of fraud committed locally, often influenced by a number of socio-economic and demographic factors;
- the effectiveness of fraud prevention arrangements and deterrence strategies;
- correctly identifying fraud;
- capacity to fight fraud, measured by the resources devoted to identify and investigate it;
- the capability of the investigators employed, indicated by their levels of skills, knowledge and experience; and
- the effectiveness of methods of recording fraud.

22. As a result of these factors, care is needed when interpreting fraud detection results. They can be open to potential misinterpretation. Myths have developed over time which has acted as a barrier to effective counter-fraud activity. For example there is a myth that detecting little or no fraud provides assurance that little or no fraud is being committed. Some councils have used this 'myth' as justification to reduce their investigative capacity.

23. TEICCAF is uniquely positioned to challenge such myths. We are able to draw upon the knowledge and experience of the former counter-fraud team of the Audit Commission, now part of TEICCAF, and other expert partner organisations (see Chapter 7).

TEICCAF in uniquely positioned to challenge such myths

24. Based on our experience, we believe that:

- councils that look for fraud, and look in the right way, will find fraud;
- fraud affects every council, although socio-economic and demographic factors will impact on the type and level of fraud in different local authorities and regions;
- fraud will always be committed, but that prevention and deterrence strategies can reduce the harm caused;
- councils that report little or no detected corporate fraud are generally higher risk than those that detect significant levels of fraud; and
- fraud detection levels provide a useful indicator as to the level of commitment of individual local authorities to tackle fraud.

25. These are important factors when interpreting fraud detection results. In addition, different types of fraud will also require different fraud prevention, detection and deterrence strategies. This will depend on whether they are high volume/ low value frauds (such as disabled parking fraud) or low volume/ high value frauds (such as procurement).

26. In the next chapter we summarise English councils national fraud detection results for 2014/15.

CHAPTER 3: NATIONAL FRAUD DETECTION BY COUNCILS

Local authorities detected fewer cases of fraud in 2014/15 compared with previous year, continuing a trend first noted in PPP 2013. However, the value of losses from detected fraud has increased significantly.

27. Previous *PPP* reports drew upon data collected by the Audit Commission's annual detected fraud and corruption survey for local government bodies. This survey was mandatory. TEICCAF is a not-for-profit organisation and does not have equivalent powers, thus participation in our detected fraud survey 2014/15 was voluntary. We outline our survey collection and extrapolation methodology in Appendix 2.

Fewer cases of fraud detected, however the value of losses increased significantly

28. The survey results:

- map the volume and value of different types of detected fraud;
- provide information about emerging and changing fraud risks; and
- help to identify good practice in tackling fraud.

29. Nearly six in ten English councils (59.5 per cent) participated in our survey. As TEICCAF was only formed in early 2015, this is a remarkable and highly encouraging response rate by councils. We thank all those councils who voluntarily participated. By drawing upon our unique knowledge and understanding of over six years of survey and fraud intelligence submissions provided by every local government body in England, we have been able to extrapolate from the survey responses the total value amount of fraud detected by every council in England (see Appendix 2 to explain our methodology).

30. Local authorities detected fewer frauds in 2014/15 (nearly 85,000) compared to the previous year (just over 104,000) (Table 1). The value of fraud detected in 2014/15 increased over the previous year, rising from £188 million to £207 million. This is the highest annual value of detected fraud since the data collection process began in 1991.

**Table 1: Cases and values of detected fraud, excluding tenancy fraud –
Changes between 2013/14 and 2014/15**

Type of fraud	Detected fraud in 2014/15 (excluding tenancy fraud)	Detected fraud in 2013/14 (excluding tenancy fraud)	Change in detected fraud 2013/14 to 2014/15 (%)
Total Fraud			
Total value	£207,078,000	£186,382,000 ¹	11.1
Number of detected cases	84,608	103,743	-18.4
Average value per case	£2,447	£1,797	36.2
Housing and council tax benefit			
Total value	£109,707,000	£126,736,000	-13.4
Number of detected cases	27,323	41,369	-33.0
Average value per case	£4,015	£3,064	-31.0
Council tax discounts²			
Total value	£18,624,000	£19,133,000	-2.7
Number of detected cases	48,160	54,749	-12.0
Average value per case	£387	£349	10.9
Other frauds			
Total value	£78,746,000	£40,513,000	94.4
Number of detected cases	9,125	7,625	19.7
Average value per case	£8,630	£5,313	62.4
Source: PPP 2014 and TEICCAF			

31. The 18.4 per cent reduction in total overall detected fraud cases is driven by the one-third reduction in detected cases of housing benefit (HB) and

¹ Detected fraud and corruption values and cases for 2013/14 have been adjusted to omit organisations such as police, fire and emergency services data previously included in Audit Commission Protecting the Public Purse reports. This adjustments ensures like-for-like comparisons between years.

² In PPP 2014 detected cases and value of Council Tax Reduction (CTR), the scheme that replaced Council Tax Benefit, were included in Housing and council tax benefit figures. However, for PEPP 2015, and in future years, CTR is included in Council tax discounts. The 2013/14 figures for both Housing and council tax benefit and Council tax discount in Table 1 have been adjusted accordingly.

council tax benefit (CTB) fraud. This fall continues a trend first noted in *PPP 2014*, with many councils starting to re-focus resources towards non-benefit frauds. We expect this trend to accelerate as councils complete the transfer of benefit fraud investigators to SFIS by March 2016.

32. The 12 per cent reduction in detected cases of council tax discount fraud is at first sight worrying, as council tax discount fraud is a direct loss to council coffers. However, interpreting council tax discount fraud results can be problematic. As a high volume/low value type of fraud, councils sometimes adopt strategies that place greater emphasis on tackling such fraud in different years. This is a reasonable approach designed to maximise the value for money benefits to the council concerned.

33. Previous *PPP* reports encouraged councils to do more to tackle non-benefit (corporate) frauds. Councils have responded well. Cases of 'Other' frauds increased by 19.7 per cent, while their value increased by 94.4 per cent. TEICCAF will work with local authorities to support this trend towards greater focus on corporate frauds.

Councils have responded well. Cases of "Other" frauds increased by 19.7 % (Value increase 94.4%)

34. We consider regional trends in more detail in Chapter 4.

Loss and harm caused by fraud

35. Table 2 shows the estimate of annual loss undertaken by the National Fraud Authority (NFA) before it was abolished in 2014. Although a useful starting point to understand the scale of financial loss to fraud against local government, it excludes the two most important areas of council spend - social care and education - and one of the main areas of income generation (business rates). Major areas of emerging fraud risk are also excluded from this analysis, such as RTB and NRPF frauds (see Chapter 6).

Table 2: Estimated annual loss to fraud in local government

Category	Annual loss (million)	Fraud level (%)
Procurement	£876	1% of spend
Housing tenancy	£845	4% of London housing stock, 2% non-London stock, multiplied by £18,000
Housing benefit ³	£350	0.7% (in 2013 – see footnote). Subsequently updated by Department of Works & Pensions
Payroll	£154	Not disclosed by NFA
Council tax discount	£133	4% on discounts and reliefs claimed
Blue badges	£46	20% of badges misused
Grants	£35	1% of spend
Pensions	£7.1	NFA – based on NFI detection levels
<i>Source: NFA Annual Fraud Indicator 2013</i>		

36. We believe, because of the omissions highlighted above, that this measure of the scale of loss represents a significant underestimate of the true loss incurred annually by councils to fraud.

³ £350 million was the housing benefit fraud estimate at the date the 2013 Annual Fraud Indicator was published by the National Fraud Authority. We recognise that subsequent measurement exercises have resulted in adjustments to the 2013 housing benefit fraud estimate.

37. Table 2 also excludes the social harm caused by fraud. For example, the local family in temporary accommodation who cannot be allocated a council home because of fraudsters' illegally sub-letting council homes for profit. This has been shown to have a long term detrimental effect on health, education and socio-economic opportunities for the families concernedⁱⁱⁱ.

38. Fraud also diminishes public trust in local authorities.

The abuse of the blue badge (disabled parking) concessions by fraudsters is a good example of this. Not only does such fraud prevent those in genuine need and entitlement from accessing required parking facilities, but it also reduces the public's confidence in the blue badge system.

**Fraud also diminishes
public trust in local
authorities**

39. Councils should give consideration to the social harm caused by fraud when determining their overall strategy to tackle corporate fraud.

Non- benefit (corporate) fraud

40. Table 3 highlights the main fraud types in the 'Other' group in Table 1. These account for almost £71.5 million of the more than £207 million detected by councils in 2014/15.

Table 3: Ten main 'Other' frauds against councils in 2013/14 and 2014/15

Fraud type	Number of cases 2014/15	Value 2014/15	Number of cases 2013/14	Value 2013/14	Changes in case number 2013/14 to 2014/15	Change in case value 2013/14 to 2014/15
Right to Buy	411	£30,247,573	193	£12,361,858	113.0	144.7
Abuse of position	221	£9,747,682	341	£4,020,580	-35.2	142.4
Insurance	473	£9,172,614	226	£4,776,300	109.3	92.0
No Recourse to Public Funds	444	£7,115,446	N/A	N/A	N/A	N/A
Social Care	291	£4,286,767	438	£6,261,930	-33.6	-31.5
Debt fraud	1,083	£2,890,638	1,061	£1,789,365	2.1	61.5
Economic and third sector support	102	£2,392,773	36	£741,867	183.3	222.5
Procurement	86	£2,349,352	127	£4,437,965	-32.3	47.1
Disabled parking concessions (Blue Badge)	4,371	£2,185,500	4,055	£2,027,500	7.8	7.8
Business rates	171	£1,089,780	84	£1,220,802	103.6	-10.3

Source: PPP2014⁴ and TEICCAF

41. Interpreting these results can be problematic, as annual percentage changes in results can be affected by a few costly frauds in either year. Procurement fraud is an example of this; detected cases decreased by 32.3 per cent, but detected value increase by 47.1 per cent.

⁴ All prior year analysis and data published in this report is derived from publicly available information. This includes previous PPP reports as well as presentational material by the Audit Commission to national and regional conferences and forums.

42. In particular, we note:

- Right to Buy (RTB) fraud cases have more than doubled in the last year. This continues a trend first reported in *PPP 2013*. We will explore this in more detail in Chapter 6;
- insurance fraud continues to rise, with the value and number of cases nearly doubling. We suggest that this is probably as a result of greater attention given to such fraud in recent years by local authorities, rather than an increase in the amount of insurance fraud being committed;
- cases of economic and third sector fraud have increased by 183 per cent, with values increasing by over 220 per cent. Economic and third sector fraud involves the false payment of grants, loans or any financial support to any private individual or company, charity, or non-governmental organisation including, but not limited to: grants paid to landlords for property regeneration; donations to local sports clubs; and loans or grants made to a charity;
- business rate fraud cases have more than doubled, although the total value detected has dropped slightly. Fluctuations in value are to be expected, given some individual business rate frauds have been worth over £1 million. In part, the increase in cases may have resulted from greater national attention given to this risk in recent years. We will work with one of our partner organisation, the Institute of Revenues, Rating and Valuations - recognised national experts in business rates - to better understand such fraud; and
- emergence of 'No Recourse to Public Funds' (NRPF) as a major area of fraud detection. This is a relatively new fraud risk and 2014/15 is the first year it has been designated as a specific fraud type in our survey. Thus to already be the fifth largest of the 'Other' frauds detected is both remarkable and concerning. Most NRPF fraud has to date been detected by London boroughs^{iv}. We will consider this in more detail in Chapter 6.

**Right to Buy fraud cases
have more than doubled in
the last year**

Housing tenancy fraud

43. The number of social homes recovered from tenancy fraudsters decreased slightly, by 1.2 per cent in the last year (Table 4).

44. We define housing tenancy fraud as:

- subletting a property for profit to people not allowed to live there under the conditions of the tenancy;
- providing false information in the housing application to gain a tenancy;
- wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant; or
- failing to use a property as the principal home, abandoning the property, or selling the key to a third party.

Table 4: detected tenancy frauds by region

Region	Number of properties in housing stock (% of national housing stock)	Number of properties recovered in 2014/15 (% of total properties recovered)	Number of properties recovered in 2013/14 (% of total properties recovered)	% changes in number of properties recovered 2013/14 to 2014/15
London	426,307 (27)	1,618 (54)	1,807 (60)	-10.5
West Midlands	200,714 (13)	475 (16)	425 (14)	11.8
Yorkshire & the Humber	226,901 (14)	208 (7)	140 (5)	48.6
East of England	132,918 (8)	174 (6)	187 (6)	-7.0
South East	159,248 (10)	160 (5)	129 (4)	24.0
East Midlands	145,069 (9)	115 (4)	136 (4)	-15.4
South West	90,292 (6)	106 (4)	111 (4)	-4.5
North East	102,455 (6)	99 (3)	59 (2)	67.8
North West	104,120 (7)	39 (1)	37 (1)	5.4
TOTAL	1,588,023 (100)	2,993 (100)	3,030 (100)	-1.2

Source: PPP 2014 and TEICCAF

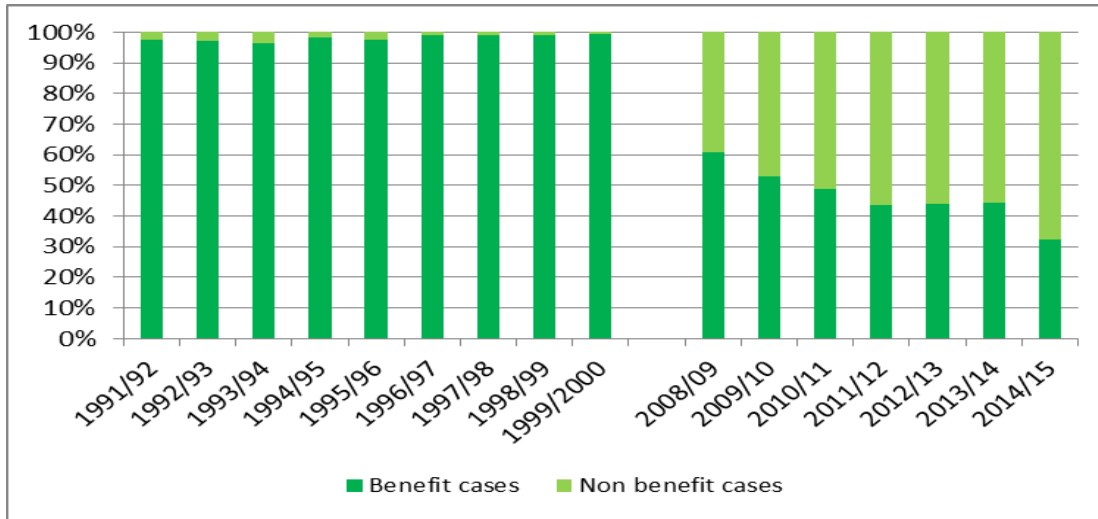
45. London, with 27 per cent of the nation's housing stock, continues to recover far more properties from fraudsters than the rest of the country (54%). However, in 2014/15 London detected 10.5 per cent fewer tenancy frauds than the previous year. This suggest tenancy fraud detection in the capital may have plateaued. We will track this development.

46. The North East (67.8%), Yorkshire and the Humber (48.6%), the South East (24.0%), the West Midlands (11.8) and the North West (5.4%) all recorded increases in the number of properties recovered. This is encouraging.
47. However, analysis of the data shows that these increases are, in the main, due to the performance of a few individual councils in each of those regions. There remain councils with housing stock that do not tackle tenancy fraud.
48. Of all councils with housing stock, nearly a third (31.3 per cent) did not recover a single property from a tenancy fraudster. However, the variation between council types is stark, with over half (54.5 per cent) of district councils recovering no properties, compared with a fifth (21.7 per cent) of metropolitan districts and unitary authorities, but only 3.4 per cent of London boroughs

Continuing the shift in focus from benefit to non-benefit (corporate) fraud

49. *PPP 2014* noted the long term shift in councils' focus from benefit to non-benefit (corporate) fraud. Between 1991 and 2000, councils prioritised detecting benefit fraud. In 1991, only 2 per cent of cases of detected fraud related to non-benefit. When the *PPP* series re-started in 2009, that figure had increased to 39 per cent. By 2014/15, this has risen to 67.7% (Figure 2).

Figure 2: Long term trend in benefit and non-benefit (corporate) frauds detected



50. This trend is not unexpected. From the early 1990s financial incentives were introduced by the government encouraging councils to tackle benefit fraud. However, these financial incentives were gradually reduced and later phased out leaving councils with only administration grants⁵. Councils still committed significant, although reducing, proportions of their counter-fraud resources to tackle benefit fraud.

51. In this chapter we have considered national trends in fraud detection. In Chapter 4 we consider regional trends in more detail and explore the potential capacity, capability and commitment of some parts of the country to tackle fraud.

⁵ The administration grant is paid to councils by central government to administer housing and council tax benefits. An element of this funding is intended to fund HB counter fraud activities.

CHAPTER 4: REGIONAL TRENDS, TRANSPARENCY AND ACCOUNTABILITY

English councils are more transparent and accountable in the fight against fraud than any part of the UK public, private or voluntary sectors. By turning an appropriate spotlight on the issue, local authorities have been able to better understand and challenge their own performance. However, indicators suggest an emerging divergence in the capacity, capability and commitment of some regions and councils to tackle fraud

52. English councils were, until relatively recently, more transparent and accountable in the fight against fraud than any other part of the UK public, private and voluntary sectors. No other sector collected and published information for the entire sectors' national, regional and local levels of detected fraud.

53. This year we note in particular the commitment of London Boroughs in the fight against fraud. In 2015, as the result of a collaboration between London Borough Fraud Investigators Group (LBFIG) and TEICCAF, the first ever *PPP* style report highlighting the fraud detection benchmarking performance of just one region (London) was published.

English councils are more transparent and accountable in the fight against fraud than any part of the UK public, private or voluntary sectors

54. This report is called *Protecting the London Public Purse 2015 (PLPP 2015)*. We encourage all English regions to work in partnership with TEICCAF to publish similar regionally focused *PPP* style reports in the future. We believe similar reports would benefit other nations such as Scotland, Wales and Northern Ireland.

55. By publicising the success some councils have had in tackling fraud, other councils have sought to emulate them and in so doing raised the standard of counter fraud throughout the sector. TEICCAF is committed to working with councils to continue a high degree of transparency and accountability, through *PEPP* and similar public reports.

The positive impact of transparency and accountability

56. Turning the spotlight on fraud in local government has had some spectacular results. For example, a three-fold increase in tenancy fraud detection in the four years after *PPP* first highlighted the issue in 2010^v.

57. *PPP 2013* reported that 88 districts, London Boroughs metropolitan district and unitary authorities had not detected a single non-benefit fraud in 2012/13. However, by utilising comparative benchmark information supplied by the Audit Commission in 2013, councillors were able to challenge local detection performance. One year later and *PPP 2014* reported that those councils that reported detecting no non-benefit fraud had more than halved to just 39. This is a remarkable improvement and an encouraging trend.

Turning the spotlight on tenancy fraud in local government has led to a three-fold increase in detection.

Regional fraud detection trends - capacity, capability and commitment to tackle fraud

58. In this chapter we will now consider whether regional capacity, capability and commitment to tackle fraud is consistent across the country.

59. To make this assessment we have used three proxy indicators of a region's (or council's) capacity, capability and commitment to effectively tackling fraud. They are:

- regional fraud detection levels compare to each regions percentage of total national spend;
- regional participation levels in our 2015 voluntary detected fraud and corruption survey; and
- proportion of councils in each region with a corporate fraud team.

60. We acknowledge that there are justifiable reasons why some regions and councils may not have addressed all, or some, of the indicators (Table 5). However, taken in totality we believe the balance of the argument suggests some form of association between the proxy indicators chosen and overall corporate capacity, capability and commitment to tackling fraud.

Table 5: Detected frauds and losses 2014/15 by region compared to regional spend, survey participation levels and corporate fraud teams

Region	Council spending by region as % of total spending	Regional % of total value of all fraud detected in 2014/15	Regional % of number of cases of all detected fraud 2014/15	% of councils in each region that participated in the voluntary survey	% of participating councils in each region with a corporate fraud team
East of England	10.3	10.6	12.1	67.9	65.7
East Midlands	7.7	5.1	7.0	54.5	29.2
London	18.2	35.3	23.1	93.9	93.5
North East	5.4	4.3	5.4	50.0	83.3
North West	13.6	10.3	8.1	56.1	34.8
South East	15.0	13.0	15.5	57.3	68.3
South West	9.1	6.5	7.9	61.0	52.0
West Midlands	10.8	8.0	9.9	51.5	29.4
Yorkshire & the Humber	10.1	6.9	10.9	31.8	57.1

Source PPP 2014 and TEICCAF

61. We caveat our interpretation by recognising that:

- our detected fraud and corruption survey was voluntary and councils in some regions would have justifiable local reasons not to participate. However, we would argue that response rate are effected by several factors, one of which is corporate commitment to tackling fraud;
- councils may be of such a relatively small size that it is not operationally efficient to have a corporate fraud team. However, it is the view of TEICCAF that such councils should be seeking to form local partnerships that act as a corporate counter-fraud resource. Encouragingly, some councils have already started to develop such partnerships; and
- there will always be some variation in the volume and value of frauds detected depending on the scope of activity of individual councils. However, within certain parameters, reasonable inferences between the proportions of council spend, detection results and corporate commitment to tackling fraud, remain valid.

The two regions with the highest survey participation level both detected more fraud by value and cases than their regional expenditure would have suggested likely

62. From our analysis we note that:

- London boroughs achieved the highest participation rate in the voluntary survey, have the highest proportion of councils with a corporate fraud team and disproportionately detect significantly more frauds (both by case and total value) than any other part of the country;
- the two regions with the highest survey participation level (London and East of England) both detected more fraud by value and cases than their regional expenditure would have suggested likely;
- the two regions where fewer than half of councils had corporate fraud teams (East Midlands and West Midlands) both detected proportionately fewer frauds (by both cases and total value) than their expenditure would suggest likely;

- the three regions with the lowest level of corporate fraud teams (East Midlands, West Midlands and North West) all detected proportionately fewer frauds (cases and total value) than their expenditure would suggest was likely; and
- Yorkshire and the Humber had the lowest survey participation rate of any region, detected proportionately fewer cases of fraud than overall regional expenditure would have suggested was likely, but by value detected more frauds than would have been proportionately expected.

63. Further research is needed to understand better the relationship between these three indicators.

64. Voluntary survey submissions rates analysed by authority type is also quite revealing (see Table 6).

Table 6: Detected survey submission rates by authority type 2014/15

Authority type	% participating in the voluntary fraud detection survey
London Boroughs	93.9
County Councils	66.7
District Councils	59.7
Metropolitan Districts and Unitary Authorities	44.6
Total	59.5

65. London boroughs achieved a near 94 per cent response rate. Using survey participation rates as a proxy indicator, this suggest that not only is London as a region arguably the most committed to tackling fraud but also as an authority type. We commend London Boroughs for this commitment, as we also do for County Councils (66.7 per cent) and District Councils (59.7 per cent). These authority types participated in the survey at a level above the national average (59.5 per cent).

66. Less than half of Metropolitan Districts and Unitary Authorities participated in the survey. We will work in partnership with these authorities to increase their participation rate in future surveys. It is

through a high participation rate that meaningful benchmark analysis is possible.

67. It is good practice for councils to maintain accurate information and data on its counter-fraud activity, including levels of detected fraud. Without this information:

- meaningful local fraud risk analysis and detection performance benchmarking is not possible;
- internal and external audit assurance is more limited; and
- councillors ability to provide strategic vision is impaired.

It is good practice for councils to maintain accurate information and data on counter-fraud activity

68. We do not advocate that information on fraud detection at individual councils is made public, as this only aids fraudsters. Even making public the number of fraud investigators a council employs speaks volumes to a fraudster about the likelihood of success and getting caught.

69. Rather we advocate as best practice that audit committees are kept fully informed of counter-fraud activity and take a strategic lead on tackling fraud.

70. Our analysis in this chapter suggests an emerging divergence in the capacity, capability and commitment of some regions to fight fraud. In the next chapter we will examine local trends in more detail.

CHAPTER 5: LOCAL TRENDS

National and regional trends can conceal significant variations in performance by similar, and often neighbouring, councils within individual regions. Councillors have a role to play to challenge where individual local performance is weak.

71. Virtually every council in England has a counter-fraud policy that in general terms states:

- responsibility to prevent and detect fraud and corruption lies with all staff and councillors of the organisation; and
- the council has adopted a zero-tolerance approach to fraud and corruption.

Councillors have an increasingly important role to play in challenging their own authority's counter-fraud performance

72. Councillors have an increasingly important role to play in challenging their own authority's counter-fraud performance. However, from a statutory perspective the ultimate duty to prevent and detect fraud and corruption at individual English local authorities lies with the 'Section 151' officer. That duty is set out in Section 151 of the Local Government Act 1972^{vi}.

73. TEICCAF is committed to supporting local councillors and 'Section 151' officers, traditionally the Director of Finance, in these important roles. Thus later this year we will provide free to every council that participated in our 2015 detected fraud and corruption survey, a benchmarked summary analysis of their own councils' individual performance. This is critical information to help inform local priorities.

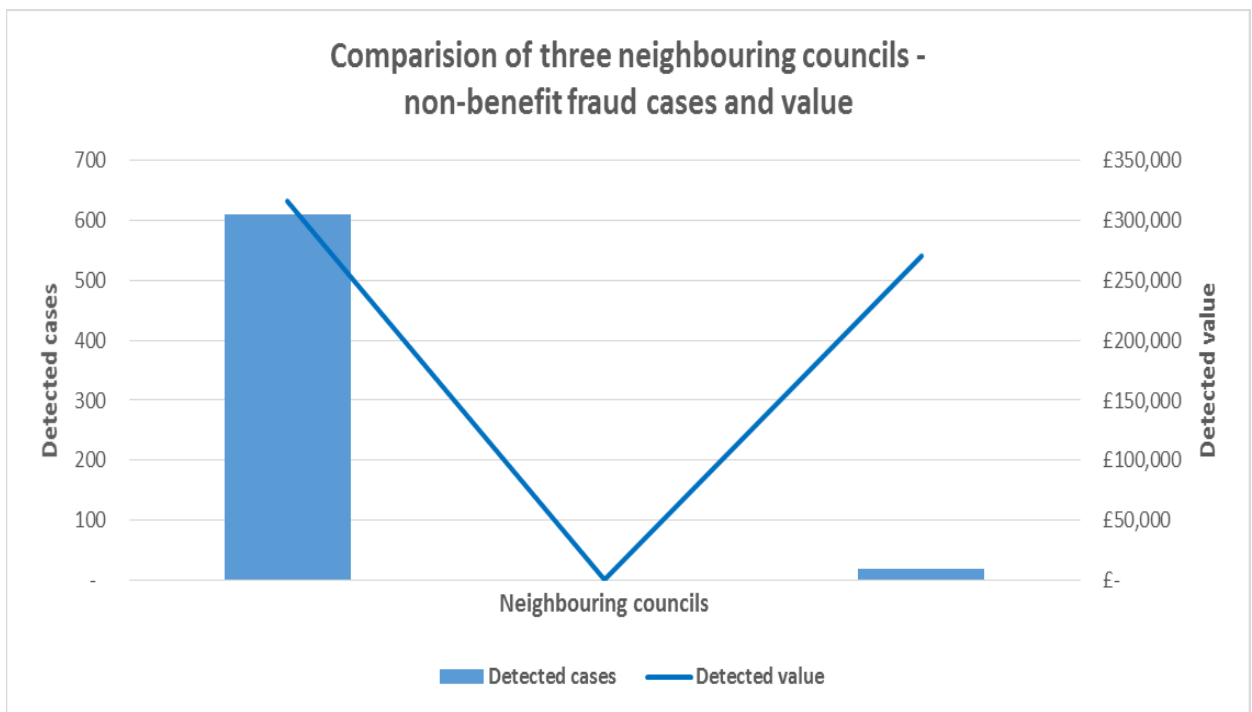
Local variations in fraud detection

74. Our analysis indicates there are sometimes significant variations in the number of cases and values of fraud that councils across the country detect. This can be explained, in part, by several factors including the counter fraud priorities and plan of individual councils in specific years.

75. However, we have found that neighbouring councils similar in size, demographic make-up and activity can report markedly different levels of corporate fraud detection.

76. As an example, Figure 3 shows the analysis of total non-benefit (corporate) frauds detected by three neighbouring councils in 2014/15 with similar socio-economic and demographic characteristics.

Figure 3: Comparison of three neighbouring councils' non-benefit fraud cases and total values



77. The difference is quite marked. One council has detected over 600 cases of corporate fraud with a total value in excess of £300,000. That council is to be commended. One neighbouring council reported 19 corporate frauds detected with a value of £270,000. Of concern is that the third council reported no detected corporate frauds.

78. Based on our experience, it is highly unlikely that no fraud has been committed at this third council. More likely, that council has limited capacity or capability to tackle corporate fraud. Local councillors have a

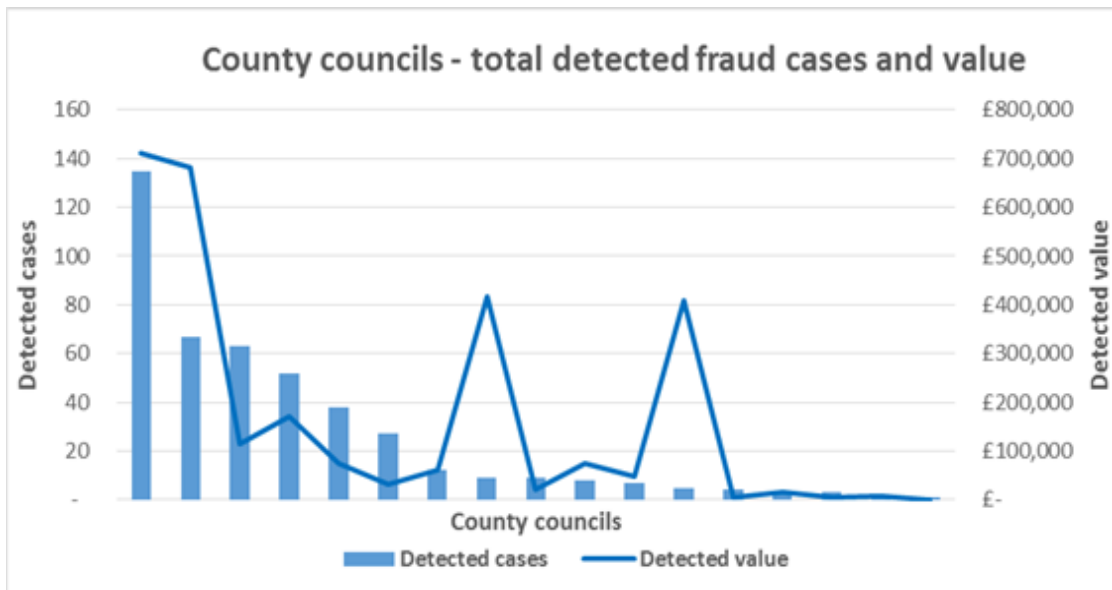
role to challenge local commitment and priorities at councils that are detecting little or no corporate fraud.

79. An analysis of the data nationally demonstrates that this is far from an isolated incident. TEICCAF will work with councils and regions to support local initiatives to address these issues.

County Councils

80. Figure 4 shows county councils total detected fraud cases and their value.

Figure 4: County councils - total detected fraud cases and value



81. In Figure 4, one county detected 135 cases of fraud with a total value of £711,000. By contrast, we note that five county councils detected fewer than five cases of fraud in 2014/15. On average, those five counties detected £6,400 of fraud.

82. The variation observed in Figure 4 is not unexpected. Early identification of fraud can often result in smaller total values. This reflects the widely accepted view that, all other things being equal, the longer a fraud is in operation the greater the amount defrauded is likely to be. This is an important consideration when interpreting detected fraud results. Thus low total value of detected fraud may reflect early identification of the fraud rather than any lack of capacity, capability or commitment by the council.

83. We will now consider fraud detection performance in relation to just one type of corporate fraud, namely council tax discount fraud.

Council tax discount fraud

84. Nationally a third of households claim single person discount on council tax, although this varies significantly between individual councils. Figure 5 shows levels of actual detected council tax (CTAX) discount fraud in just one English region in 2014/15, including single person discount. We provide this as an example of the variation in council tax discount fraud detection that occurs in some part of the country. Every bar in Figure 5 represents a district council in the region concerned.

Figure 5: One region – council tax discount fraud detected cases and values

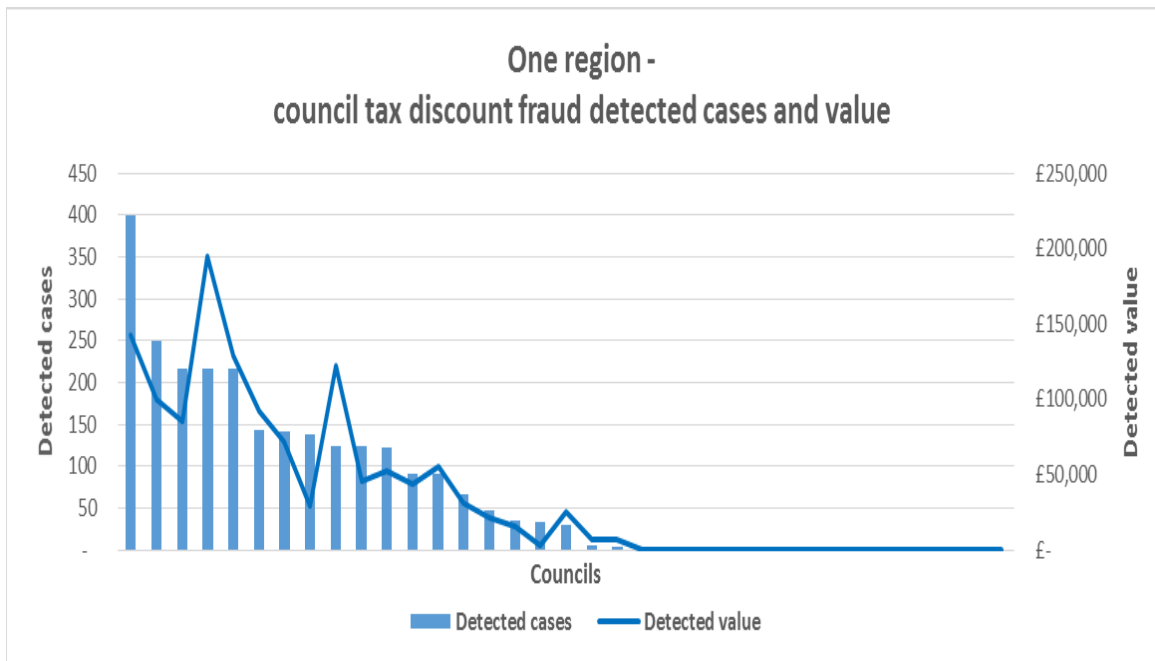


Figure 5 shows that some councils are effectively detecting CTAX discount fraud. One council in this region detected approximately 400 cases of such fraud in 2014/15. By comparison over a third of councils in this region report detecting no CTAX discount fraud. This pattern is replicated across the country.

85. It may be that the councils that reported no detected fraud cases instead incorrectly recorded them as something other than fraud, such as error. This is not good practice. Fraud should always be recorded as fraud.

86. Interpreting CTAX discount fraud results can be problematic. As a high volume/low value fraud, councils sometimes adopt strategies that place greater emphasis on tackling such fraud in different years. This is a reasonable approach designed to maximise the value for money benefits to the council concerned. This may explain why some councils did not detect many, if any, cases in 2014/15.

One council in this region detected approximately 400 cases of such fraud in 2014/15. By comparison over a third of councils in this region report detecting no CTAX discount fraud

87. This chapters provides just a few examples of the variation in fraud detection levels at individual councils across the country. Some of this variation can be explained by different local priorities in different years. However, our experience suggests that where little or no corporate fraud is being detected, then counter fraud capacity, capability and the commitment of the local authorities concerned may require greater scrutiny.

88. In the next chapter we focus on two emerging frauds that our survey indicates are likely to be increasingly significant in future years.

CHAPTER 6: EMERGING FRAUD RISKS – RTB AND NRPF

RTB and NRPF frauds account for much of the increase in the total value of fraud detected in 2014/15. However, these are relatively little known frauds. Our proxy indicator suggests at least 3 per cent of RTB applications in London, 1.5 per cent in the rest of the country, may be subject to such fraud. NRPF has emerged this year as a new area of risk, especially in London. Further research is needed to better understand these emerging risks.

89. In Chapter 3 we identified RTB and NRPF as two emerging fraud risk categories deserving of further consideration.

RTB and NRPF frauds account for much of the increase in total value of fraud detected in 2014/15

Right to Buy (RTB) fraud

90. In 2012, the government relaxed the qualifying rules and raised the discount threshold for Right to Buy (RTB) in relation to council homes. This encouraged greater opportunity for council house tenants to own their own home.
91. In *PPP 2014*, the Audit Commission highlighted the unintended consequences of these changes. The significant sums involved, and the relentless increases in property values, especially in London, had made RTB discount fraud highly attractive to fraudsters. In the three years immediately after the discount increase was implemented, there has been a near ten-fold increase in the number of RTB frauds detected.
92. There is no nationally accepted estimate of the scale of RTB fraud. This is a significant barrier to the development of a proportionate response by councils to this fraud risk.
93. To help social housing providers better understand the scale of the fraud risk, we have undertaken an analysis of existing publicly available information, matched to detected RTB frauds. We have used this to develop a proxy indicator of the likely scale of RTB fraud. We separately calculated the results for London and non-London councils. Further information on our data sources, caveats and methodology can be found in Appendix 2.

94. We have prudently interpreted the results and triangulated those findings with previous housing tenancy fraud research. On that basis we believe the evidence suggests that at least 3 per cent of London RTB council house applications may be subject to fraud^{vii}. In the rest of the country RTB fraud may be at least 1.5 per cent of RTB applications.

95. These results are intended only to be indicative of the likely scale of RTB fraud. More detailed research is required to better estimate the scale of RTB fraud. We encourage authoritative stakeholders to work with TEICCAF in the future to better understand the nature and scale of RTB fraud.

96. In the 2015 Queen’s Speech, the government announced that, *“Legislation will be introduced to support home ownership and give housing association tenants the chance to own their own home”*.

97. We draw to the government’s attention the significant levels of fraud that councils have detected within the current RTB scheme for council housing stock. Housing associations, with a few notable exceptions, do not have either an equivalent capacity or capability to tackle RTB fraud.

We encourage the government to incorporate within the proposed legislative extension sufficient measures to protect housing associations against RTB fraud

98. We encourage the government to incorporate within the proposed legislative extension sufficient measures to protect housing associations against RTB fraud.

No Recourse to Public Funds (NRPF) fraud

99. In recent months a number of councils, mainly London boroughs, approached TEICCAF to highlight an emerging fraud risk, namely, ‘No Recourse to Public Funds’ (NRPF). This fraud involves persons from abroad who are subject to certain immigration controls which prevents them from gaining access to specific welfare benefits or public housing.

100. However, families who have NRPF may still be able to seek assistance, housing and subsistence from their local authority whilst they are awaiting for or appealing a Home Office decision on their status^{viii}. In some instances councils have been deceived into providing welfare and other state assistance where NRPF has been claimed fraudulently.

101. In some of these frauds this appears to have been achieved by fraudulently claiming family status with children who, on further investigation, may not be their own. NRPF is a locally administered scheme, thus creating the potential for multiple claims at different councils using the same alleged 'family'.
102. In London, applications for financial assistance from families with NRPF have started to rise quite dramatically in recent times^{ix}. Leading commentators suggest that the average cost to the local taxpayer to support one NRPF family is approximately £25,000 per family per year.
103. In the first year of separately recording this category of fraud, councils detected in total 444 cases valued at more than £7 million. This already constitutes one of the larger value fraud types detected. Our analysis indicates many councils have yet to look for such fraud, suggesting that far more NRPF fraud could be detected.
104. London Boroughs^x have been among the first to identify this emerging threat. However, councils across other regions of England have also started to report detecting NRPF fraud.
105. Pro-active preventative work in London suggests the scale of the problem that councils may be facing. At one London Borough, all new NRPF applicants are now subject to both identity document scans and credit checks. The Borough reports that on being informed that such checks will be undertaken, approximately 10 per cent of new claimants now withdraw their application. Not all of these will be fraudulent, but this does suggest the potential scale of such fraud.
106. TEICCAF urges the government to give greater priority to the fight against NRPF fraud. Further research is needed to better understand the nature and scale of this emerging fraud threat.

Conclusions

107. Councils have to be ever vigilant to identify trends and emerging fraud threats. The fraud risk associated with RTB is only now starting to be better understood. NRPf fraud is less well known. Pro-active action by some councils suggest this is a growing threat that requires further consideration.
108. Appendix 1 provides a checklist for councils to self-assess their high level counter-fraud arrangements. We also encourage councils to use our benchmark summary analysis of individual fraud detection results for 2014/15 to satisfy themselves that they are playing their part in the fight against fraud (free to all councils who participated in our detected fraud survey, available autumn 2015).

CHAPTER 7: LOOKING TO THE FUTURE - TEICCAF

Fraud and corruption risks are constantly evolving. Local authorities need to remain vigilant to new fraud risks and respond quickly to the changing ways in which fraudsters target existing areas of vulnerability. Fraud prevention will become an increasingly important part of the overall strategic response by councils to fraud. TEICCAF is well placed to support this shift in focus.

The European Institute for Combatting Corruption And Fraud (TEICCAF)

109. TEICCAF is an independent, not-for-profit organisation. Founded in April 2015, TEICCAF is committed to working in partnership to help tackle public and voluntary sector fraud and corruption.
110. TEICCAF was established, in part, as a response to concerns from key stakeholders about the emerging gap in counter-fraud leadership that had developed by early 2015. The need for an independent, authoritative, not-for-profit voice able to influence national, regional and local responses to fraud is increasingly viewed as a priority by the wider counter-fraud community.
111. TEICCAF is committed to providing choice, innovation and value for money in the support and guidance we will provide. We will focus on those areas where we have acknowledged expertise, such as social housing fraud.
112. We will also focus on fraud risks where we are uniquely able to draw upon specialist knowledge from TEICCAF member organisations such as the Institute of Revenue, Rating and Valuations (IRRV) or the Local Authority Investigating Officers Group (LAIOG).
113. In *PEPP 2015* we have highlighted areas in which TEICCAF will work in partnership to help tackle fraud. This chapter expands on the priority issues to be addressed.

TEICCAF is committed to providing choice, innovation and value for money in the support and guidance we will provide

Capacity, capability and risk

114. Local authorities have traditionally been quick to respond to emerging fraud risks. However, as capacity to tackle fraud continues to reduce across English local government, innovative new approaches are required to address both the main fraud risks as well as new, emerging frauds.
115. The National Crime Agency^{xi} (NCA) and City of London Police^{xii} have highlighted the increasing importance of technology, in particular internet and digital, on economic crime. Fraudsters have been quick to adapt and innovative. Councils must also continue to do so.
116. TEICCAF is able to draw upon the expertise of a wide variety of fraud fighters to assist and support the sector to stay one step ahead of the fraudsters. In particular we will seek to work in partnership to identify and promote good practice in tackling cyber enabled fraud.
117. The National Policing Fraud Strategy 2015 highlights the importance of prevention activities. Local authority counter-fraud specialists tell us the absence of a financial means to assess fraud prevention activities is a major hindrance to a national re-balancing of counter-fraud resources towards greater fraud prevention activities.
118. We will work with partners and stakeholders to promote an agreed understanding of the financial benefits of prevention activity. We will work in partnership with local authorities to develop an approach that allows prevention work to be accurately reported nationally, regionally and locally.
119. To support this approach, TEICCAF will collect, analyse, and promote good practice in tackling all types of public and voluntary sector fraud. This database of good practice will be available to all TEICCAF members.

TEICCAF will work with partners and stakeholders to promote an agreed understanding of the financial benefits of prevention activity

New approaches to tackling major fraud risks

120. Our analysis of social housing fraud detection shows that sub-letting for profit remains one of the most common types of social housing fraud, especially in London^{xiii}. New approaches to prevent and deter such fraud are required. TEICCAF will work with concerned stakeholders to develop new preventative tools to deter such fraud.
121. Managing the risk of fraud was one of the top priority areas councils highlighted to us this year (Chapter 1). Fraud detection data is a vital component of effective fraud risk management. While we recognise there may be justifiable local reason why approximately 40 per cent of councils did not participate in our voluntary fraud detection survey, one possible explanation is the absence of robust and complete detection data at some of those councils. We will work with councils to improve the recording of fraud detection results.
122. We noted that even among participating councils in the survey, there is sometimes a delay in providing the data. This suggest fraud detection data collection arrangements in some councils may require to be strengthened. We will work with partner organisations to improve the recording, collection, analysis and future dissemination of fraud detection information.
123. TEICCAF believes that the general public can make a significant contribution to the fight against fraud. We are committed to raising fraud awareness and wider public understanding of good practice in fighting fraud.
124. Chapters 5 and 6 highlighted an increasing divergence amongst some councils and regions in their capacity, capability and commitment to tackling fraud. We will work with individual councils and regions to address this.

Contacting TEICCAF

125. You can learn more about TEICCAF from our web site and contact us through social media. Details are below

- www.teiccaf.com
- <https://www.facebook.com/pages/T-E-I-C-C-A-F-The-European-Institute-for-Combatting-Corruption-And-Fraud/372191179638143>
- <https://www.linkedin.com/groups/TEICCAF-8293282/about>
- <https://twitter.com/teiccaf>

APPENDIX 1: CHECKLIST FOR THOSE RESPONSIBLE FOR COMBATting FRAUD AND CORRUPTION

	Yes	No	Comments
1. A) Do we have a zero tolerance policy towards fraud?			
1. B) Does our fraud and corruption detection results demonstrate that commitment to zero tolerance?			
2. Do we have a corporate fraud team?			
3. Does a councillor have portfolio responsibility for fighting fraud across the council?			
4. A) Have we assessed our council against the TEICCAF fraud detection benchmark analysis (available autumn 2015)			
4. B) Does that benchmark analysis of fraud detection identify any fraud types which we should give greater attention to?			
5. Are we confident we have sufficient counter-fraud capacity and capability to detect and prevent non-benefit (corporate) fraud, once SFIS has been fully implemented?			
6. Do we have appropriate and proportionate defences against the emerging fraud risks, in particular: <ul style="list-style-type: none"> • Right to Buy fraud • No Recourse to Public Funds fraud. 			

APPENDIX 2: DATA COLLECTION APPROACH AND EXTRAPOLATION METHODOLOGY

Survey methodology

1. In previous years the Audit Commission used its powers to mandate all local government bodies in England to annually submit information and data on detected fraud and corruption (the survey). As a result the survey achieved a 100 per cent submission rate.
2. TEICCAF do not have similar powers. The 2014/15 detected fraud and corruption survey was voluntary. However, we are able to draw upon the extensive knowledge and experience of the (former) Audit Commission counter fraud team that had created and delivered the original national detected fraud survey and *PPP* reports.
3. This team are able to draw upon a unique understanding of over six years of survey and fraud intelligence submissions by every local government body in England. This has been used to put in place arrangements that ensures quality, validity, accuracy and robustness of the data submitted.
4. Information sources used include previous *PPP* reports, Audit Commission national publications and conference, seminar and fraud forum presentations and supporting analysis by the former counter-fraud team of the Audit Commission. These have all been placed in the public domain. We have extensively this information to inform longer term trends in the report as well as to assess the accuracy and completeness of individual data submissions.
5. In addition weighted extrapolation was undertaken to inform regional results where appropriate. Where a council has not participated in the survey, we have used weighted trend data to calculate their results.

RTB fraud – proxy indicator methodology

6. We have used detected RTB frauds as a proportion of all successful RTB applications (combined with detected frauds) as an indicator of the likely scale of RTB fraud. Our information sources are:

- detected RTB frauds 2013/14 (source PPP 2014)
 - detected RTB frauds 2014/15 (source: TEICCAF)
 - successful RTB applications 2013/14 and 2014/15 (source: Department for Communities and Local Government, Housing Statistical Release June 2015).
7. Our approach analysed both London and non-London RTB activity. We triangulated those findings with housing tenancy fraud research, including London (Ref PPP 2012).
 8. On that basis we believe the evidence suggests that at least 3 per cent of London RTB council house applications are subject to fraud. In the rest of the country the evidence suggest RTB fraud to be at least 1.5 per cent.
 9. Our approach adopts a prudent interpretation of the results, to address acknowledge limitations in the methodology.
 10. We caveat our estimate by acknowledging that:
 - the findings are only indicative in nature; and
 - our analysis omits RTB applications which were unsuccessful for non-fraud reasons.

REFERENCES

- ⁱ National Policing Fraud Strategy 2015, City of London Police.
- ⁱⁱ Serious and Organised Crime Strategy 2013, National Crime Agency
- ⁱⁱⁱ Protecting the Public purse 2010, Audit Commission.
- ^{iv} Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- ^v Protecting the Public Purse 2014, Audit Commission
- ^{vi} <http://www.legislation.gov.uk/ukpga/1972/70/section/151>
- ^{vii} Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- ^{viii} Legislation includes Children's Act 1989, Children Leaving Care Act 2000 and National Assistance Act 1948.
- ^{ix} Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- ^x Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- ^{xi} Serious and Organised Crime Strategy 2013, National Crime Agency.
- ^{xii} National Policing Fraud Strategy 2015, City of London Police.
- ^{xiii} Protecting the London Public Purse 2015, LBFIFG and TEICCAF

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