

Report to:	Finance and Audit Committee
Relevant Officer:	Tracy Greenhalgh – Chief Internal Auditor
Date of Meeting:	27 th November 2014

AUDIT COMMISSION – PROTECTING THE PUBLIC PURSE 2014

1.0 Purpose of the report:

- 1.1 To provide a summary of the key information identified in the Audit Commission’s recent Protecting the Public Purse (2014) publication.

2.0 Recommendation(s):

- 2.1 To note the findings of the national report and agree whether it would be beneficial to set up a briefing session with the Chief Internal Auditor to complete the Protecting the Public Purse checklist attached at Appendix 6(a).

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 the 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.

None

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 Introduction

5.2 From 2015/16, Councils will no longer deal with benefit fraud as their benefit fraud investigators will transfer to the Single Fraud Investigation Service (SFIS), which is managed by the Department of Work and Pensions (DWP). The transition to the SFIS began in July 2014 and will be complete by March 2016.

5.3 Councils will need to focus on the non-benefit frauds that present the highest risk of losses, including those that arise from the unintended consequences of national policies. For example, council tax discount fraud, right to buy fraud, social care fraud and insurance fraud.

5.4 The Department for Communities and Local Government (DCLG) has awarded £16 million through a challenge fund for two years from 2014. Councils whose bids are successful will receive a share of this fund to support their efforts to refocus their counter-fraud activities on non-benefit fraud during the implementation of the SFIS. Similar funding may not be available in the future.

5.5 Councils have reported that the single most important issue they face in tackling fraud is the need to ensure they have enough counter-fraud capacity. Other concerns identified by Councils in an Audit Commission survey included:

- Collecting and using data effectively;
- Understanding the importance of the financial benefits of fighting fraud;
- The need for effective risk management;
- Improving counter-fraud staff skills; and
- Partnership working.

5.6 The latest figures on detected fraud in councils

5.7 Local government bodies detected fewer cases of fraud in 2013/14 compared with 2012/13. However, the value of losses from detected fraud increased from £178 million in 2012/13 to £188 million in 2013/14, the highest value on record.

Unitary authorities and district councils detected more fraud in 2013/14 than in the previous year. The value of detected fraud in 2013/14 rose in unitary authorities compared with the previous year.

5.8 Unitary authorities reported a decrease in 10 per cent of the number of detected cases of benefit fraud in 2013/14 compared to 2012/13.

5.9 In 2013/14, the largest non-benefit frauds by value were for:

- **Right to Buy** – this fraud has seen a marked increase in cases (up 89 per cent) and a more than doubling in value to £12.4 million (up 110 per cent);

- **Social care** – cases have more than doubled to 438 (up 119 per cent) and their value has increased by more than half (58 per cent) to £6.3 million;
- **Insurance** – cases have more than tripled (up 205 per cent) and their value has risen by more than half (60 per cent) to £4.8 million; and
- **Disabled parking** (also known as Blue Badge fraud) – as in 2012/13, this produces the largest number of “other” cases, and in 2013/14, cases increased by 40 per cent to 4,055 with a value of £2 million.

5.10 Most local authority fraud investigators believe that opportunistic fraudsters pose the greatest risk. However, there is growing concern about organised criminals tendering for public service contracts, for example, to launder money. Councils should be alert to the risk of organised crime and ensure their defences remain appropriate for the task.

5.11 Longer term trends in frauds detected by Councils

5.12 The unintended consequence of some changes in Government policy is to make some frauds more attractive to fraudsters. For example:

- **Right to Buy** – Measures to encourage tenants to use the Right to Buy scheme were brought in from April 2012, which encouraged substantially more Right to Buy applications. This also led to more detected frauds. Between April 2012 and March 2014, Councils detected 295 cases, a 144 per cent increase over the three years before.
- **Social Care** – Since 2007, the government has consistently aimed to give people more choice and control over the social care they receive, and to enable them to live independently at home for as long as possible. Cases of detected social care fraud increased from 131 in 2009/10 to 438 in 2013/14. However, it should be noted that in 2013/14, 62% of unitary authorities did not detect a single social care fraud.

5.13 Effective stewardship of public funds

5.14 A corporate approach to tackling fraud in all areas supports Councils to carry out the core functions of effective counter-fraud. This helps them fulfil their role as stewards of public resources, which involves a number of core components:

- **Prevention and deterrence:** it is not currently possible to quantify accurately the financial benefit from deterring fraud, but professionals in the field believe the prospect of detection is the most powerful deterrent. Councils should widely publicise what fraud is, the likelihood of detection, and the penalties that fraudsters face.
- **Investigation and detection:** between 2009/10 and 2013/14 the mean average

number full time equivalent (FTE) fraud investigators employed by Councils declined steadily from 5.2 to 4.7, a fall of 10 per cent over the period. Our analysis suggests that a fall in FTE numbers is associated with lower fraud detection levels.

- **Recovery and redress:** after 2016, when central government no longer contributes funds for counter-fraud activity, Councils will need to recover more losses than they have in the past. They can use legislation such as the Proceeds of Crime Act to do so.
- **Openness and transparency:** Councils should look for fraud and record how many frauds they detect. Doing so would show leadership, allow them to compare their performance with other organisations, and alert them to emerging fraud risks more effectively.

5.15 Increasing levels of detection may therefore be a positive sign that Councils take fraud seriously, rather than evidence of weak counter-fraud controls. The more Councils look for fraud, and follow good practice, the more they will find.

5.16 It is becoming increasingly urgent for Councils to recover losses to fraud. In 2016, the funding to aid Councils re-focus their activities on non-benefit frauds during the transition to SFIS will end. Without this money, Councils will need alternative means of financing counter-fraud investigation and prevention. Recovery of losses offers one way to do this.

5.17 Building on the *Protecting the Public Purse (PPP)* legacy

5.18 From April 2015, the Audit Commission's counter-fraud activities will transfer to new organisations. The National Fraud Initiative's (NFI) data matching service will transfer to the Cabinet Office.

5.19 The remainder of the Audit Commission's counter-fraud staff and functions, including the *Protecting the Public Purse (PPP)* series and fraud briefings, will transfer to the Counter Fraud Centre, run by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Centre is a source of expertise and leadership for local government and the wider public sector to help organisations meet challenges in the future.

5.20 Recommendations

5.21 All local government bodies should:

- a) Use the checklist for councillors and others responsible for audit and governance to review their counter-fraud arrangements (see Appendix 6a);
- b) Adopt a corporate approach to fighting fraud, to ensure they fulfil their stewardship role and protect the public purse from fraud;
- c) Actively pursue potential frauds identified through their participation in the National

Fraud Initiative (NFI);

- d) Assess themselves against the framework in CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption; and
- e) Engage fully with the new CIPFA Counter Fraud Centre.

5.22 Councils in particular should:

- f) Protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud;
- g) Be alert to the risk of organised crime, notably in procurement;
- h) Be alert to the risks of fraud, particularly in growing risk areas such as Right to Buy and social care;
- i) Apply the lessons from the approach encouraged by *PPP* to tackle housing tenancy fraud, to other types of fraud;
- j) Focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources;
- k) Focus more on recovering losses from fraud, using legislation such as the Proceeds of Crime Act; and
- l) Take up the Commission's offer of receiving a fraud briefing to help them benchmark their performance and promote greater transparency and accountability.

5.23 The government should consider:

- m) Mandating local government bodies to complete the annual survey of detected fraud and corruption, to ensure it remains a comprehensive and robust source of data on fraud in the local public sector;
- n) Extending the requirement to report information on detected cases of fraud to academies and free schools;
- o) Commissioning research into the extent of the annual loss to local authority fraud and the costs and benefits of fraud prevention activities;
- p) Encouraging CIPFA to use the detected fraud and corruption survey in the future to investigate the extent to which fraudsters use digital and on-line technology to

defraud local government;

- q) Extending powers for Councils to investigate all frauds, to protect the public purse; and
- r) Working with Councils to anticipate and mitigate any unintended risks of fraud created by new policies.

Does the information submitted include any exempt information?

No

List of Appendices:

Appendix 6 (a) – Checklist for Councillors and Others Responsible for Governance

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 Capacity to undertake future counter fraud work will be determined by whether the bid for funding from the DCLG has been successful.

8.0 Equalities considerations:

- 8.1 None

9.0 Financial considerations:

- 9.1 None

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 which need to be undertaken each year balanced with the limited resource available.

11.0 Ethical considerations:

- 11.1 None

12.0 Internal/ External Consultation undertaken:

12.1 None

13.0 Background papers:

13.1 Audit Commission – Protecting the Public Purse 2014 (October 2014)
<http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Public-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf>