

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 22 March 2016
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Service - Anti-Fraud and Corruption Update

Summary

To update the Accounts and Audit Committee on Audit and Assurance Service work undertaken in relation to anti-fraud and corruption activity through the year which has been briefly referred to in previous quarterly updates on the work of the Service.

Recommendation

The Accounts and Audit Committee is asked to note the report.

Contact person for access to background papers and further information:

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Background Papers:

Trafford Council Anti-Fraud and Corruption Strategy

Audit and Assurance Service – Anti-Fraud and Corruption work update (March 2016)

1. Introduction

- 1.1 As part of the internal audit plan, the Audit and Assurance Service conducts work relating to anti-fraud and corruption. As well as undertaking investigative activities, work also involves reviewing measures in place to reduce the risk of fraud and raising awareness across the Council.
- 1.2 This report summarises work undertaken by Audit and Assurance in 2015/16 and planned actions to support the Council's Anti-Fraud and Corruption Strategy. It also provides a brief update in Section 2 below on wider counter fraud developments in the Council. A separate report on the outcomes of the Council's Benefit Fraud investigation work, and the work of the new Counter Fraud and Enforcement Team, will be presented to the Accounts and Audit Committee later in 2016.

2. Counter Fraud Developments

- 2.1 In respect of benefit fraud investigation, the formation of a Single Fraud Investigation Service (SFIS), covering all welfare benefit fraud, was previously announced by the Government in December 2013. As previously reported to the Accounts and Audit Committee, the SFIS brings together welfare benefit fraud investigations currently undertaken by DWP, local authorities and HMRC. Staff in Trafford Council's Benefit Fraud Investigation Team transferred to the SFIS on 1st March 2016.
- 2.2 Ahead of the transfer, the Council established its own internal dedicated fraud investigation function. The new Counter Fraud and Enforcement Team forms part of Exchequer Services, initially using monies obtained from a successful grant application submitted to the DCLG for the purposes of counter fraud activity. The grant provided funding up to the end of 2015/16.
- 2.3 The aim of the new team was to initially focus primarily on revenues related fraud which the Council would continue to be responsible for after the SFIS transfer, particularly in relation to fraud related to Council Tax and Business Rates.
- 2.4 The Accounts and Audit Committee will receive a report later in 2016 setting out outcomes from the work of the Benefit Fraud Team during 2015/16. The report will also detail outcomes from the work of the new Counter Fraud and Enforcement Team, including its work in relation to Council Tax Single Person Discount Fraud.

3. Audit and Assurance Service

Investigations

- 3.1 During 2015/16, Audit and Assurance staff have contributed to work in relation to four new investigations.
- 3.2 Two of these investigations involved Audit providing support reviewing allegations of misconduct in connection with the misuse of ICT.
 - For one of these investigations relating to a potential IT security breach, advice was provided to HR following a search of email records in liaison with ICT. Results proved inconclusive with a lack of evidence to identify a specific breach.
 - In the other instance in respect of ICT, allegations were received of misuse of ICT facilities by a service volunteer. The incident was followed up further by ICT staff in liaison with the relevant service and the volunteer is no longer engaged by Trafford Council.
- 3.3 One investigation involved providing support in reviewing discrepancies in relation to stock. This included discussions with staff, reviewing stock recording, monitoring and security procedures, and supporting records in relation to sales, income collected and cash banked. Audit reported to management to confirm areas of control weakness in relation to stock with a number of recommendations made. Procedures and responsibilities within the relevant service area have been reviewed with revised arrangements put in place around all areas reviewed.
- 3.4 Another instance relates to concerns raised in relation to loss of cash. Audit had previously advised the service involved to strengthen controls around security of cash. The improved controls introduced by the service subsequently resulted in two instances of cash loss being identified. Investigating officers were appointed and a disciplinary investigation undertaken. One Officer was dismissed following a disciplinary hearing.
- 3.5 Audit also concluded two other investigations which were ongoing from 2014/15. The first was in relation to non-payment of statutory pay deductions as a result of a community school making direct payments to staff outside of payroll. The second was in relation to discrepancies in a Service cash imprest account. In the first case Audit liaised with HR in calculating the unpaid deductions. These were communicated to the staff involved and arrangements were made to repay the deductions in full. In the second case recommendations were made to the relevant service in respect of security of cash holding and regular reconciliation of imprest records.

- 3.6 Audit continue to liaise with other services as issues arise and any further work undertaken will be reported in the Annual Internal Audit Report.

Other Work Undertaken

- 3.7 As part of on-going internal audit reviews, coverage and assessment of internal controls to reduce the risks of fraud or error is included in individual reviews. Details of Internal audit reports issued during the year have been reported on a quarterly basis and the Annual Internal Audit Report is due to be issued in June 2016.
- 3.8 The Audit and Assurance Service has co-ordinated the submission of annual data to CIPFA to inform the Institute's annual exercise which replaces the "Protecting the Public Purse" reports previously undertaken by the Audit Commission. This new annual survey is entitled the "CIPFA Fraud and Corruption Tracker" (CFaCT).
- 3.9 Details of fraud identified during financial year 2014/15 were reported to the Institute in June 2015. That data was used to inform the national annual summary report published later in 2015. Nationally, fraud amounting to £192m was reported by local authorities in 2014/15 with around 40% of this relating to Housing Tenancy fraud, 30% to Housing Benefits, and 7% to Council tax support and discounts.
- 3.10 However, this is the first year of the CFaCT report and results may be somewhat skewed by the variable response rate received from the various tiers of respondents. 100% of London Authorities responded to the questionnaire, 70% of Counties, 64% of Metropolitan Unitaries, 54% of other Unitaries, and 23% of Districts. It is hoped that response rates will improve as the survey becomes more established.
- 3.11 Total fraud reported to CFaCT by Trafford Council in June 2015 for 2014/15 relating to Housing Benefit, Council Tax Reduction, Single Person Discount and other internal fraud amounted to approximately £614k.
- 3.12 The CFaCT report highlights the need for Councils to consider fraud investigation capability following the introduction of SFIS which, as stated earlier, Trafford Council has addressed by way of establishing its own counter fraud team. Audit and Assurance will liaise with the new Counter Fraud team in 2016/17 to consider existing anti-fraud policies, particularly with reference to the Code of Practice issued by CIPFA "Managing the Risks of Fraud and Corruption".
- 3.13 In terms of work in relation to existing Council policies, in December 2015, the Audit and Assurance Service published a reminder on the intranet of guidance on the Council's policies on registering offers of gifts and hospitality. The Service has also liaised with Human Resources and Legal Services during the year in respect of the

Council's Whistleblowing Policy, providing input to be taken into account in future updating of the Policy and guidance."

4. National Fraud Initiative (NFI)

- 4.1 The Audit and Assurance Service continues to co-ordinate the Council's participation in the National Fraud Initiative.
- 4.2 As Members will be aware through previous reports to the Committee, the NFI is a nationwide data matching exercise. It is designed to help participating bodies identify possible cases of error or fraud and detect and correct any consequential under or overpayments from the public purse. It is carried out once every two years at minimal cost to the organisations involved and is firmly established as the United Kingdom's premier public sector fraud detection exercise.
- 4.3 In respect of the latest 2014/15 NFI exercise, the Audit and Assurance Service co-ordinated the submission of Council data to the Audit Commission in October 2014 and the subsequent matches were received in January 2015. To the 17th February 2016 a total of 4,638 matches have been reviewed which has resulted in the identification and correction of 28 errors and the detection of 1 fraud totalling £76,961, with £74,394 in the process of recovery. The fraud related to social care payments and resulted in a prosecution and conviction. As indicated in 2.4 detailed reporting of the outcomes from benefit fraud and other investigations will be reported to the Committee later in 2016.
- 4.4 Total benefit overpayments being recovered as a result of the 2014/2015 NFI exercise amounted to £23,008. There is also an on-going weekly reduction in payments of £475, approximately £24,700 per annum.
- 4.5 The other main source of error identified as part of the current exercise is in connection with creditor overpayments, primarily duplicate payments. Investigations have revealed 15 instances of duplicate payments between October 2011 and October 2014 not previously identified, and £42,183 is in the process of being recovered as a result.
- 4.6 The "No Purchase Order, no pay" policy in respect of creditor invoice payments was introduced from 1st December 2015. The policy requires all creditor invoices to quote a valid Council purchase order number. Failure to raise, or quote, purchase order numbers is one of the causes of duplicate invoice payments. Further steps are being taken in this area to reduce risks and Audit will continue to liaise with Finance staff on this issue.

5. Future Work

5.1 A dedicated block of time will be set aside in the 2016/17 Internal Audit plan to include:

- Continued support in investigations across the Council as and when required/appropriate.
- Continued review of latest NFI data matches in liaison with other services.
- Inclusion of a number of audit reviews in the Audit Plan following up on control issues / risks previously identified in relation to investigations undertaken.
- On-going liaison with the Counter Fraud team and other services in reviewing existing anti-fraud policies and procedures.