



Meeting: **AUDIT AND GOVERNANCE COMMITTEE**  
Date: **WEDNESDAY 14 JANUARY 2015**  
Time: **5.00PM**  
Venue: **COMMITTEE ROOM**  
To: **Councillors C Pearson (Chair), Mrs C Mackman (Vice Chair),  
J Cattanach, J Crawford, M Dyson, J McCartney, I Nutt, Mrs  
S Ryder and S Shaw-Wright.**

## Agenda

### 1. Apologies for absence

### 2. Disclosures of Interest

A copy of the Register of Interest for each Selby District Councillor is available for inspection at [www.selby.gov.uk](http://www.selby.gov.uk).

Councillors should declare to the meeting any disclosable pecuniary interest in any item of business on this agenda which is not already entered in their Register of Interests.

Councillors should leave the meeting and take no part in the consideration, discussion or vote on any matter in which they have a disclosable pecuniary interest.

Councillors should also declare any other interests. Having made the declaration, provided the other interest is not a disclosable pecuniary interest, the Councillor may stay in the meeting, speak and vote on that item of business.

If in doubt, Councillors are advised to seek advice from the Monitoring Officer.

### 3. Minutes

To confirm as a correct record the minutes of the Audit Committee held on 24 September 2014 (pages 1 to 4 attached).

### 4. Chair's Address to the Audit Committee

### 5. Information Governance - A/14/15

To receive the report of the Solicitor to the Council (pages 5 to 12 attached).

**6. Annual Governance Statement 2013/14 – Action Plan Review - A/14/16**

To receive the report of the Executive Director (s151) (pages 13 to 16 attached).

**7. Counter Fraud Annual Review - A/14/17**

To receive the report of the Counter Fraud Manager, Veritau (pages 17 to 103 attached).

**8. Internal Audit Progress Report 2014/15 - A/14/18**

To receive the report of the Audit Manager, Veritau (pages 104 to 111 attached).

**9. Annual Audit Letter 2013/14 - A/14/19**

To receive the report of the External Auditors, Mazars (pages 112 to 119 attached).

**10. Certification of Claims and Returns Annual Report 2013/14 - A/14/20**

To receive the report of the External Auditors, Mazars (pages 120 to 126 attached).

**11. Audit Progress Report - A/14/21**

To receive the report of the External Auditors, Mazars (pages 127 to 141 attached).

**12. Private Session**

**In accordance with Section 100(A)(4) of the Local Government Act 1972, in view of the nature of the business to be transacted, the meeting be not open to the Press and public during discussion of the following item as there will be disclosure of exempt information as defined in Section 100(1) of the Act as described in paragraph 3 of Part 1 of Schedule 12(A) of the Act.**

**13. Review of the Risk Management Strategy - A/14/22**

To receive the report of the Audit Manager, Veritau (pages 142 to 159 attached).

**14. Review of the Corporate Risk Register - A/14/23**

To receive the report of the Audit Manager, Veritau (pages 160 to 182 attached).

## **15. Review of the Access Selby Risk Register - A/14/24**

To receive the report of the Audit Manager, Veritau (pages 183 to 204 attached).

**Mary Weastell**  
**Chief Executive**

<b>Date of Next Meetings</b>
15 April 2015

Enquiries relating to this agenda, please contact Palbinder Mann on:  
Tel: 01757 292207 Email: [pmann@selby.gov.uk](mailto:pmann@selby.gov.uk)

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# Minutes

## Audit Committee

- Venue: Committee Room
- Date: 24 September 2014
- Present: Councillor Mrs C Mackman (Chair), Councillor J Cattanach, Councillor J Crawford, Councillor M Dyson, Councillor I Nutt and Councillor S Ryder
- Apologies for Absence: Councillor C Pearson
- Also Present: Phil Jeffrey and Richard Smith, Veritau and Cameron Waddell and Alison Kent, Mazars
- Officers Present: Jonathan Lund, Deputy Chief Executive; Gillian Marshall, Solicitor to the Council; Karen Iveson, Executive Director (s151); Janet Lornie, Finance Officer and Richard Besley, Democratic Services Officer

### 22. DECLARATIONS OF INTEREST

There were no declarations of interest.

### 23. MINUTES

#### RESOLVED:

**To receive and approve the following minutes and they be signed by the Chair:**

- **Special Audit Committee – 12 June 2014**
- **Audit Committee – 18 June 2014**
- **Special Audit Committee – 4 July 2014**
- **Special Audit Committee – 29 July 2014**

## **24. CHAIR'S ADDRESS**

The Chair welcomed the new representatives from Veritau to the meeting.

The Chair informed the Committee that the latest Work Programme was attached to the agenda to reflect the request from Veritau that the item on Counter Fraud be moved to the January 2015 meeting rather than this meeting.

## **25. A/14/10 – CONSTITUTIONAL CHANGES**

The Solicitor to the Council presented the report which set out the findings of the Audit Committee's Review of the Constitution.

The Solicitor to the Council explained that the re-drafted Constitution took into account the legislative changes introduced by the Openness in Local Government Bodies Regulations 2014. It was also explained that changes had been made to Article 13 in the Council's Constitution to reflect the changes brought in by the regulations.

The Chair thanked the Solicitor for the hard work put in preparing the draft Constitution for approval. It was explained that if supported by the Committee, the changes would be presented to the Executive and then Full Council for formal approval.

### **RESOLVED:**

**To note and approve the Report at Appendix 1 of the findings of the Audit Committee Review of the Constitution.**

## **26. INFORMATION GOVERNANCE REPORT**

The Solicitor to Council provided a verbal update of the Information Governance project and confirmed the project was on course to meet the internal audit recommendations and action plan and it was intended to put an Annual Report on Information Governance before the Committee in January 2015.

It was explained that the report would pay particular attention to data and document retention and data protection issues. The Solicitor to the Council confirmed that she was currently looking at historical documents to identify what should be retained and the length of retention.

The Solicitor confirmed that there would also be a requirement for all staff to undergo training on information governance.

### **RESOLVED:**

**To note the update and consider the Annual Report at the Committee meeting in January 2015.**

## **27. A/14/11 – ANNUAL GOVERNANCE STATEMENT**

The Executive Director (S151) presented the report on the Annual Governance Statement 2013/14 and explained that the statement provided assurance that the authority had an effective method of internal control.

The Chair asked the Committee to note that the overall opinion from Veritau on the matter of management of risk, governance and controls operated by the Council was that they provided substantial assurance without qualification.

It was explained that the statement if approved would then be signed by the Leader of Council and the Chief Executive.

### **RESOLVED:**

**To approve the 2013/14 Annual Governance Statement.**

## **28. A/14/12 – STATEMENT OF ACCOUNTS (POST AUDIT)**

The Executive Director (s151) presented the Council's Statement of the Accounts for 2013/14, following external audit, for the Committee to examine and approve.

The Executive Director (s151) explained that the Council had experienced a successful year financially with surpluses achieved and an increase in net assets despite the difficult current financial climate and the reduction in funding from central Government. The Executive Director (s151) also highlighted the key issues and amendments for the Committee.

The Chair expressed the thanks of the Committee to the Executive Director (s151) and the Finance team for their efforts in preparing the Statement of Accounts.

### **RESOLVED:**

**To approve the 2013/14 Statement of Accounts.**

## **29. A/14/13 – MAZARS' AUDIT COMPLETION REPORT**

Cameron Waddell, Mazars, presented the Audit Completion report.

The Committee noted the opinion of the Auditors was that the financial position remained strong and that a continued position of effective financial management had been demonstrated throughout the year.

The Auditor highlighted the significant findings and confirmed that some adjustments had been made with the approval of the Executive Director (s151).

The Auditor confirmed that Mazars were providing an unqualified opinion on the Audit completion report and the letter of representation was signed at the meeting.

**RESOLVED:**

**To note the report.**

**30. A/14/14 – INTERNAL AUDIT PROGRESS REPORT 2014/15**

Phil Jeffrey, Veritau informed the Committee that he would be the successor to John Barnett after the departure of Isabel Jones and presented the 1<sup>st</sup> Quarter update report on the progress made in delivering the internal audit work plan for 2014/15.

The Auditor reported on the progress of the current audits and also on the status of the follow up actions of the 2013/14 audits that required action. He confirmed that all audits would be submitted within target.

**RESOLVED:**

**To approve the report.**

The meeting closed at 5:50 pm



## Public Session

Report Reference Number: A/14/15

Agenda Item No: 5

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To: **Audit and Governance Committee**  
Date: **14 January 2015**  
Author: **Gillian Marshall, Solicitor to the Council**  
Lead Officer: **Karen Iveson, Executive Director (s151)**

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**Title: Information Governance**

### Summary:

In March 2014 the Council's internal auditors (Veritau) published a final report into their review of the Information Governance and Data Protection arrangements at Selby District Council. It was found that the arrangements for managing risk were poor with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation. Their overall opinion of the controls within the system at the time of the audit was that they provided **Limited Assurance**.

A project was established with a view to putting in place systems and controls to address the issues identified during the audit and achieving a standard of Level 1 on the HMG Information Assurance Asset Maturity model standard.

This report sets out progress towards achieving those agreed actions.

### Recommendations:

- i. **That Audit and Governance Committee note the contents of this report.**

### Reasons for recommendation

To meet the requirement within the Audit and Governance Committee Terms of Reference that the Committee should receive the summary internal audit reports and seek assurance that action has been taken where required.



## 1. Introduction and background

1.1 In March 2014 the Council's internal auditors (Veritau) published a final report into their review of the Information Governance and Data Protection arrangements at Selby District Council. It was found that the arrangements for managing risk were poor with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation. Their overall opinion of the controls within the system at the time of the audit was that they provided **Limited Assurance**. A project was established with a view to putting in place systems and controls to address the issues identified during the audit and achieving a standard of Level 1 on the HMG Information Assurance Asset Maturity model standard.

1.2 Audit Committee considered the report on xx and asked xx

## 2 The Report

2.1 The latest version of the High Level Action Plan is attached as **Appendix A** for information. In summary the following actions have been completed

- The Executive Director has been appointed to the post of Senior Information Risk Officer (SIRO) with overall responsibility for information governance (IG)
- IG has been added to the Terms of Reference of the Audit and Governance Committee
- IG has been added to the Corporate and Access Selby risk registers
- Lead Officers have been appointed as Information Asset Owners
- An Information Governance Framework consisting of an Information Charter, Information Risk Management Policy, ICT Acceptable Useage Policy, Data Protection Breach Policy and a Document Retention Policy have all been approved.

2.2 All staff have received briefings on the new IG Framework and further mandatory training is being rolled out.

2.3 Work is ongoing in relation to the completion of an Information Asset Register and data sharing agreements with key partners.

### 2.4 The Information Commissioner

Since 6 April 2010, the Information Commissioner's Office (ICO) has had the power to fine organisations up to £500,000 for serious data breaches or losses (the previous maximum fine that could be imposed was £5,000). In 2012 the ICO imposed the following fines on local authorities:

- £250,000 against the **Scottish Borders Council** after employees' pension records were found in an over-filled recycle bank in a

supermarket car park. The Council had employed an outside company to digitise the records but failed to secure appropriate guarantees on how the personal data would be kept secure;

- £120,000 against the **City of Stoke on Trent** as a result of sensitive information about a child protection case being e-mailed to the wrong person. The information had not been encrypted despite a similar breach having occurred in 2010;
- £70,000 against the **London Borough of Barnet** following the loss of sensitive information relating to 15 vulnerable children or young people following a burglary at an employee's home. The fine was imposed because the Council had failed to give appropriate instruction on how personal information should be kept secure.

2.5 Other breaches have resulted in a number of Councils being required to sign undertakings to improve information governance. These have included:

- **West Lancashire Borough Council** - following the theft of a business continuity bag containing emergency response documents and personal data relating to 370 council employees. Factors which contributed to the ICO's decision included the length of time taken to react to the breach and the lack of effective instructions on security of off-site paper records;
- **Leicestershire County Council** - following the theft of a briefcase containing sensitive personal data from a social worker's home. Factors which contributed to the ICO's decision included the lack of training provided to the social worker and the Council's failure to provide instruction on the handling of paper records;
- **Hertfordshire County Council** - following the loss of a folder containing details of an Attendance and Pupil Support consultation. Factors which contributed to the ICO's decision included the excessive amount of personal data being transported and the length of time taken to investigate the breach.

## 2.6 Data Protection Breach Policy

Within Selby District Council six data security incidents have been investigated since the policy was approved in June 2013. These include:

- One incident of sensitive data relating to individuals who are in receipt of certain benefits being printed and left on the printer
- Three incidents where documents containing sensitive personal information were sent to the wrong recipient
- One incident where data given to a printing company to send out a mailing included sensitive details of the individuals that were not required for the task and should not have been included.
- One incident where a member of staff accessed sensitive personal data in breach of the policies and requirements of the post.

2.7 In each of the security incidents listed above action was taken immediately to recover the data and each incident was subject to a formal breach review by the relevant Lead Officer in conjunction with the Solicitor to the Council. Recommendations arising from the breach investigations were implemented locally. One matter resulted in disciplinary proceedings being taken against an officer.

2.8 The incidents detailed in paragraph 2.6 were largely isolated incidents save for the three incidents of incorrectly addressed mail. None fell within the criteria requiring reference to the Information Commissioner. The three similar incidents resulted in specific training being given within the relevant teams and procedures being amended to prevent recurrence.

### 2.9 Freedom of Information

A new system for monitoring Freedom of information requests was introduced in September 2014. In the quarter to 31 December the Council received a total of 155 FOI requests. The Council has responded to 95.1% of these requests within the 20 working days' time frame defined by the legislation (compared to a performance target of 95%). The ICO will consider formal performance monitoring of an authority where it responds to 85% or fewer requests within the statutory time period.

### 2.10 Priorities for the next six months

The following have been identified as priority tasks for the next three months: -

- Complete the Information Asset Registers
- Ensure the correct data sharing agreements are in place
- Review data security via the ICT Strategy

## **3 Legal/Financial Controls and other Policy matters**

### **Legal Issues**

3.1 The Information Commissioner has the power to fine the Council if there is a serious breach and he concludes that the Council does not have procedures in place that are sufficiently robust

### **Financial Issues**

3.2 There are no financial implications arising from this report.

### **Impact Assessment**

3.3 Residents, suppliers, customers and partners have a reasonable expectation that the Council will hold and safeguard their data appropriately. Failure to comply with recognised good practice will have a negative impact of the reputation of the organisation.

**4. Conclusion**

- 4.1 Significant progress has been in addressing the recommendations of the Audit and achieving level 1 compliance. Remaining matters are expected to conclude by the end of the financial year.

**5. Background Documents**

None

*Contact Officer:*

*Gillian Marshall  
Solicitor to the Council  
Selby District Council  
gmarshall@Selby.gov.uk*

**Appendices:**

*Appendix A – High Level Action Plan as at 22/12/14*

## LEVEL 1 INFORMATION MATURITY

### SDC HIGH LEVEL ACTION PLAN

**AS AT 22.12.2014**

Ref	Action	Target	Current Position/ Proposed Actions	RAG
1	Promulgate top level policy statement <ul style="list-style-type: none"> <li>Publish Information Charter</li> </ul>	5 June 2014	Completed	
2	Senior commitment to Information Assurance <ul style="list-style-type: none"> <li>Appoint Senior Information Risk Owner (SIRO)</li> <li>Report to Main Board regularly</li> <li>Provide assurance to Audit Committee on annual basis</li> </ul>	5 June 2014  5 June 2014  30 May 2014	Executive appointed SIRO and IAOs and formally approved acceptable usage policy and data breach policy.  First report to SIRO/Audit Committee due Jan 2015  Audit committee briefed and aware of inclusion of annual report in work programme  IG added to Corporate Risk Register on 19/5 and in AS Risk Register on 23/5  (Access Selby Board and BMG/OMG to be aware of any concerns via risk register)  Chris Smith to add action plan to covalent to show risk management	
3	Appoint Information Asset Owners (IAOs) for each key group of information assets	5 June 2014  30 June 2014	Appointed Lead Officers as IAOs  Supporting IAOs to produce Information Asset Registers - all IAOs have now had a one-to-one meeting with Veritau (except policy)	
4	Develop reporting mechanism to provide assurance to SIRO	30 August 2014	DP Breach policy approved by Executive	

	<ul style="list-style-type: none"> <li>Breach reporting and investigating system</li> <li>IAO assurance to SIRO</li> <li>Compliance review</li> </ul>		To draft annual report covering these issues by end August	
		30 June 2014	IAO assurance process to be agreed – to revisit once IA registers returned but to report via annual report above	
		30 October 2014	Schedule annual report to SIRO – report then to be considered by Audit Committee	
5	<p>Carry out annual risk awareness training for those with access to personal data</p> <ul style="list-style-type: none"> <li>Identify groups of staff and their training needs</li> <li>Develop training packs for different groups</li> <li>Deliver selected training</li> <li>Monitor delivery of training</li> <li>Carry out awareness campaign</li> </ul>	13 March 2014	Member Briefing Session held – Audit Committee Members provided with additional briefing June 2014	
		30 April 2014	Awareness Campaign – used HR and Communications Teams to put out messages in newsletters and on Screen and included in team brief	
		30 April 2014	Provided Briefing Script and posters to Lead Officers in OMG meeting and request cascade of briefing through training hour. Managers cascaded briefings and provided names to HR for reporting	
		30 May 2014	Training for senior management agreed and delivered	
		31 May 2014	IAO training agreed and delivered	
		30 May 2014	Review job description mandatory requirements and add DP/IG to induction process – allocated to lead officer HR	
		31 December 2014	Online Training for all staff via NYCC package available – staff take up to be reviewed by project group	
6	<p>Develop data sharing protocols with 3<sup>rd</sup> party suppliers &amp; delivery partners</p> <ul style="list-style-type: none"> <li>Identify groups, exposure and needs</li> </ul>	30 March 2015	<p>Review existing arrangements and identify where work needed</p> <p>Audit of current arrangements</p>	

	<ul style="list-style-type: none"> <li>• Develop appropriate awareness information packs</li> <li>• Ensure requirement is included in contracts</li> <li>• Deliver training where appropriate</li> </ul>	30 March 2015	<p>undertaken. To be picked up by project team in 2015</p> <p>Ensure confidentiality is reflected in contractual arrangements – work ongoing on rolling out standard contract terms and provision of guidance on specification writing</p>	
7	<p>Develop Information Risk Policy</p> <ul style="list-style-type: none"> <li>• Define information risk appetite</li> <li>• Agree classification scheme for records</li> <li>• Communicate scheme to staff</li> <li>• Monitor compliance</li> </ul>	5 June 2014  As above	<p>Write Policy – <b>completed</b></p> <p>Include in staff communications and briefings identified above – <b>completed</b></p>	
8	<p>Develop Information Risk Register</p> <ul style="list-style-type: none"> <li>• Register monitored regularly</li> <li>• Highest risks fed into corporate risk register</li> <li>• IAOs and IMs identified in Information Risk Registers</li> </ul>	30 March 2015	<p>Individual asset registers are available in draft. Further work now required to finalise these.</p>	
9	<p>Information Security</p> <ul style="list-style-type: none"> <li>• Develop Information Security Policy covering both IT and non IT based data</li> <li>• IT Security Officer appointed</li> <li>• Access to and use of sensitive data monitored</li> </ul>	30 March 2015	<p>Review current systems for IT Security and write policy based on current position</p> <p>Review draft policy and identify any gaps/omissions</p> <p>Agree monitoring process</p> <p>Ensure that risk of Members IT provision is included as part of the IT Security Policy</p>	



Report Reference Number: A/14/16

Agenda Item No: 6

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**To:** Audit and Governance Committee  
**Date:** 14 January 2015  
**Author:** Karen Iveson; Executive Director (s151 Officer)  
**Lead Officer:** Karen Iveson; Executive Director (s151 Officer)

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**Title:** Annual Governance Statement 2013/14 – Action Plan Review

**Summary:** To review progress on the Annual Governance Statement (AGS) 2013/14 Action Plan approved in September 2014.

**Recommendation:**

**It is recommended that the Action Plan for the Annual Governance Statement for 2013/14 be noted.**

**Reasons for recommendation:**

To ensure the necessary actions have been carried out in accordance with the approved Annual Governance Statement and action plan.

**1. Introduction and background**

- 1.1 Good governance is important to all involved in local government; however, it is a key responsibility of the Leader of the Council and of the Chief Executive.
- 1.2 The preparation and publication of an annual governance statement in accordance with the Cipfa/SOLACE Framework was necessary to meet the statutory requirements set out in Regulation 4(2) of the Accounts and Audit Regulations which requires authorities to “conduct a review at least once in a year of the effectiveness of its



system of internal control” and to prepare a statement on internal control “in accordance with proper practices”.

- 1.3 To meet the requirement to review the AGS an Action Plan has been agreed and is subject to half yearly review by the Audit Committee.

## **2. The Report**

- 2.1 The present Action Plan for review is attached as Appendix A. Progress against the approved action plan has been made and it is pleasing to note the improvements in reconciliations completed to date.

- 2.2 Actions will continue to be monitored throughout the remainder of 2014/15.

## **3. Legal/Financial Controls and other Policy matters**

- 3.1. Legal Issues

- (a.) None.

- 3.2. Financial Issues

- (a.) None.

## **4. Conclusion**

- 4.1. The AGS and scrutiny of the Action Plan represents progress towards setting the highest Corporate Governance standards and meets the requirements of the Accounts and Audit Regulations.

## **5. Background Documents**

**Contact Officer:** *Karen Iveson, Executive Director (and s151);*  
[kiveson@selby.gov.uk](mailto:kiveson@selby.gov.uk)  
*01757/292056*

**Appendices:** **Appendix A – AGS 2013/14 Action Plan**

## Appendix A

Year	Issue Identified	Source of Evidence	Update/Summary of Action Taken & Proposed	By whom & By when	Current Position
2012/13	ICT 2011/12. Risks have been identified around disaster recovery, security and back-up arrangements. As IT is fundamental to the Council achieving its goals it is important that systems and processes are robust.	Internal Audit report.	The IT Manager will ensure that agreed actions are implemented.	IT Manager	Disaster recovery arrangements are in place.  Business Continuity Plans have been subject to audit during 2014/15 Substantial assurance was given although recommendations for improved were made.
2013/14	Again, reconciliations of bank accounts and feeder systems have been undertaken although some delays have been seen.	Internal Audit Report	The Lead Officer - Finance will ensure that reconciliations are maintained up-to-date.	The Lead Officer - Finance and Access Selby Directors Immediate	Training has been provided where needed to ensure timely and accurate reconciliations can be carried out. Reconciliations are up to date with the exception of Housing Benefits, Air Pollution and Land Charges. Land Charges are completed and awaiting final sign off but still experiencing delays with Benefit reconciliations – to be

Year	Issue Identified	Source of Evidence	Update/Summary of Action Taken & Proposed	By whom & By when	Current Position
					followed up with Lead Officer Revs & Bens with a view to having these all completed by the Q3 deadline.
2013/14	Information Governance and breaches in Data Protection are not adequately managed.	Internal Audit Report	<p>Solicitor to the Council Plans are now in place to:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Assign clear roles and responsibilities;</li> <li><input type="checkbox"/> Approve and implement the necessary policies and procedures;</li> <li><input type="checkbox"/> Deliver a targeted training programme;</li> <li><input type="checkbox"/> Ensure adequate reporting arrangements; and</li> <li><input type="checkbox"/> Consider appropriate disciplinary procedures for data breaches.</li> </ul> <p>Internal Audit to assist/advise.</p>	Executive Director (s151) June 2014	The Executive Director (s151) has been as designated Senior Information Risk Owner (SIRO). A project managed by the Solicitor to the Council has been established and an action plan produced. Progress on the actions identified is contained in the Information Governance Annual Report elsewhere on this agenda.

**Public Session**

**Report Reference Number: A/14/17**

**Agenda Item No: 7**

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**To:** Audit and Governance Committee  
**Date:** 14 January 2015  
**Author:** Jonathan Dodsworth, Counter Fraud Manager,  
Veritau Ltd  
**Lead Officer:** Karen Iveson; Executive Director (s151 Officer)

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**Title: Counter Fraud Annual Review**

**Summary:**

The purpose of the report is to update the committee on new guidance on countering fraud and corruption, counter fraud activity, and the outcomes from a self assessment of the Council's current arrangements.

**Recommendation:**

**It is recommended that the committee note the recent counter fraud publications, investigation activity over the last year, and the outcomes of the review of counter fraud arrangements set out in appendix D.**

**Reasons for recommendation**

To provide assurance to the committee that the Council adopts a robust approach to countering the risk of fraud and that it continues to develop its arrangements in accordance with good practice guidelines.

**1 Introduction and background**

1.1 Fraud is a significant issue for all public sector organisations. Current estimates suggest fraud costs the public purse in excess of £20bn per year, and local government more than £2bn (excluding tax and benefit fraud). It is therefore essential that the Council has arrangements in place to deter and prevent fraud and reduce losses. On an annual basis the Council reviews its counter fraud arrangements against good practice and reports the results of that review to this Committee.

## **2 Recent guidance**

- 2.1 There have been a number of changes in national counter fraud support and advisory arrangements in recent months. Cipfa launched its new Counter Fraud Centre in July 2014. They have subsequently published a new Code of Practice on Managing the Risk of Fraud and Corruption. This updates guidance previously contained in the 2008 publication Managing the Risk of Fraud, Actions to Counter Fraud and Corruption (Red Book). A copy of the new code of practice is included at appendix A. The code includes suggestions for reflecting adherence with the code in the Annual Governance Statement. In December 2014 Cipfa published detailed guidance on applying the code.
- 2.2 The Audit Commission have recently published their latest annual report summarising fraud activity in local government - Protecting the Public Purse. A copy of the report is included in appendix B.

## **3 Investigation activity**

- 3.1 Fraud investigation work is undertaken by either Veritau (for example in relation to internal fraud) as the council's internal auditor, or by the council's Enforcement Team (for example council tax and housing benefit fraud).
- 3.2 There have been no suspicions of fraud reported to Veritau for investigation in the last twelve months.
- 3.3 A summary of benefit investigation work for 2013/14 and 2014/15 to date is included in appendix C.

## **4 Review of arrangements**

- 4.1 In previous years the Council has reviewed counter fraud practice using the Red Book (see paragraph 2.1). This has been superseded by the new code of practice and guidance published in December 2014. The new guidance will be used to conduct a detailed review of counter fraud arrangements in 2015/16.
- 4.2 For the purposes of this report, a desktop exercise has been undertaken to review arrangements using the checklist included in Protecting the Public Purse (appendix B). This has highlighted a number of areas for further consideration and action, where appropriate. This review is attached at Appendix D.

## **5 Legal/Financial Controls and other Policy matters**

### **5.1 Legal issues**

- 5.1.1 There are no legal issues.

## **5.2 Financial Issues**

5.2.1 There are no financial issues.

## **6 Conclusion**

6.1 A review of the counter fraud arrangements has been completed and a number of areas for further consideration and action have been highlighted.

## **7 Background Documents/Contacts**

**Contact Officer:** *Jonathan Dodsworth; Counter Fraud Manager;  
Veritau*  
[Jonathan.Dodsworth@veritau.co.uk](mailto:Jonathan.Dodsworth@veritau.co.uk)

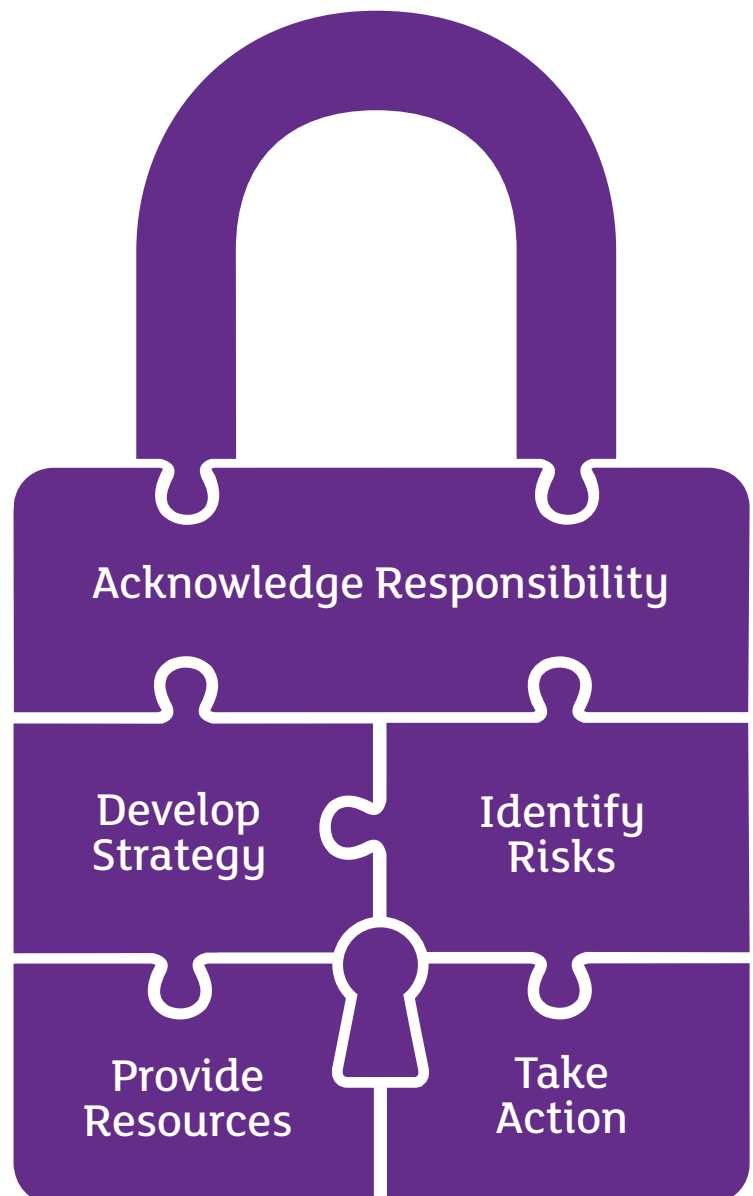
*Richard Smith; Deputy Head of Internal Audit;  
Veritau*  
[Richard.smith@veritau.co.uk](mailto:Richard.smith@veritau.co.uk)

### **Appendices:**

- Appendix A: Code of Practice on Managing the Risk of Fraud and Corruption 2014**
- Appendix B: Protecting the Public Purse 2014**
- Appendix C: Results of benefit Investigation work**
- Appendix D: Fraud Self Assessment (December 2014)**

Code of practice on

# managing the risk of fraud and corruption



**CIPFA COUNTER  
FRAUD CENTRE**

# Code of practice on managing the risk of fraud and corruption

Published by:

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3 Robert Street, London WC2N 6RL

020 7543 5600 \ [www.cipfa.org](http://www.cipfa.org)

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# Code of practice principles

Leaders of public sector organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

**The five key principles of the code are to:**

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption.

## **A Acknowledge responsibility**

The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

### **Specific steps should include:**

- A1** The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.
- A2** The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.
- A3** The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.
- A4** The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.

## **B Identify risks**

Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

### **Specific steps should include:**

- B1** Fraud risks are routinely considered as part of the organisation's risk management arrangements.
- B2** The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.
- B3** The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.
- B4** The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.

## C Develop a strategy

An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

### Specific steps should include:

- C1 The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.
- C2 The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.
- C3 The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks. Proactive and responsive components of a good practice response to fraud risk management are set out below.

#### Proactive

- Developing a counter-fraud culture to increase resilience to fraud.
- Preventing fraud through the implementation of appropriate and robust internal controls and security measures.
- Using techniques such as data matching to validate data.
- Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters.

#### Responsive

- Detecting fraud through data and intelligence analysis.
  - Implementing effective whistleblowing arrangements.
  - Investigating fraud referrals.
  - Applying sanctions, including internal disciplinary, regulatory and criminal.
  - Seeking redress, including the recovery of assets and money where possible.
- C4 The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

## D Provide resources

The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

### Specific steps should include:

- D1 An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.
- D2 The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.
- D3 The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.
- D4 The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.

## E Take action

The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

### Specific steps should include:

- E1 The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy. As a minimum the framework includes:
  - Counter fraud policy
  - Whistleblowing policy
  - Anti-money laundering policy
  - Anti-bribery policy
  - Anti-corruption policy
  - Gifts and hospitality policy and register
  - Pecuniary interest and conflicts of interest policies and register
  - Codes of conduct and ethics
  - Information security policy
  - Cyber security policy.
- E2 Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.
- E3 Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.
- E4 Providing for independent assurance over fraud risk management, strategy and activities.
- E5 There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.

# Applying the code in practice

Where organisations are making a statement in an annual governance report about their adherence to this code, one of the following statements should be approved according to whether the organisation conforms with the code or needs to take further action.

The statement should be approved by the governing body and signed by the person responsible for signing the annual governance report<sup>1</sup>.

## Statement 1

Having considered all the principles, I am satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Or

## Statement 2

Having considered all the principles, I am satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

### Actions to be taken to manage the risk of fraud:

Action:	Responsibility:	Target date:

<sup>1</sup> Guidance notes on the implementation of the code to support evaluation are available at [www.cipfa.org](http://www.cipfa.org).

# Glossary

As the code can apply to a wide range of organisations generic terms are used to describe governance and leadership responsibilities.

## *Governing body:*

The person(s) or group with primary responsibility for overseeing the strategic direction, operations and accountability of the organisation. Examples include, the Board, Council.

## *The organisation's leadership team:*

Leadership team: comprises the governing body and management team.

Examples or relevant roles include, cabinet members, chair of board, accounting officer, chief executive, executive directors, vice-chancellor, principal, headteacher.



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# Protecting the public purse 2014

Fighting fraud against local government

October 2014



**The Audit Commission's role is to protect the public purse.**

**We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.**

**We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.**

**We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.**



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## Summary and recommendations

**This is the last report in the *Protecting the public purse (PPP)* series from the Audit Commission before we close in March 2015. It draws on the learning from the Commission's 25-year experience in counter-fraud in local government.**

- The Commission published *PPP* reports from 1991 to 2000 and again from 2009 to 2014. *PPP* reports have:
  - raised awareness of the importance of fighting fraud;
  - promoted transparency and accountability about counter-fraud in local government bodies;
  - improved data on fraud detection, including benchmarking; and
  - promoted good practice in fighting fraud.

**The scale of fraud against local government is large, but difficult to quantify with precision.**

- In 2013, the National Fraud Authority estimated that fraud cost local government £2.1 billion, but this is probably an underestimate.
- Each pound lost to fraud reduces the ability of local authorities to provide public services.
- The more councils look for fraud, and follow good practice, the more they will find. Increasing levels of detection may be a positive sign that councils take fraud seriously rather than a sign of weakening of controls.

**In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, their value increased by 6 per cent.**

- The number of detected cases fell by 3 per cent to just over 104,000, while their value increased by 6 per cent to over £188 million.
- The number of detected cases of **housing benefit and council tax benefit fraud** fell by 1 per cent to nearly 47,000, while their value rose by 7 per cent to nearly £129 million.
- The number of detected cases of **non-benefit** fraud fell by 4 per cent to just over 57,400, while their value rose by 2 per cent to £59 million.

**In the past 5 years, councils have shifted their focus from benefit fraud to non-benefit fraud. From 2016, they will no longer deal with benefit fraud.**

- Between 1991 and 2000, nearly all fraud detected by councils was for housing benefit and later council tax benefit. During this time, councils had financial incentives to look for those frauds.
- These incentives ended in 2006, and councils have increasingly focused on non-benefit fraud in the past five years. Benefit frauds still comprise 45 per cent of all cases of detected fraud, and 69 per cent of their value.
- By 2016, all benefit fraud investigation will have transferred from councils to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions. The government's funding of £16 million from 2014, awarded under competitive bidding, to help councils refocus their efforts on non-benefit fraud during the transition will end at the same time.

**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.**

- Between 2009/10 and 2013/14, councils consistently detected more **council tax discount fraud** than any other type of non-benefit fraud. In the most recent year, nearly 50,000 cases were found, worth £16.9 million.
- Detected **Right to Buy** fraud cases have increased nearly five-fold since 2009/10 to 193 per year. In 2013/14 these were worth £12.3 million. The rise in the number of these frauds followed large increases in the discount threshold over this period.
- The number of detected cases of **social care** fraud has more than trebled since 2009/10 to 438. In 2013/14, they were worth £6.2 million.
- Detected cases of **insurance** fraud rose from 72 in 2009/10 to 226 in 2013/14 and were worth £4.8 million.

**Overall, councils are detecting more non-benefit frauds, but detection rates for some types of frauds have fallen.**

- In 2010/11, councils detected 319 cases of **business rates** fraud worth £5.7 million. In 2013/14, they detected 84 cases worth £1.2 million.
- In 2010/11, councils detected 145 cases of **procurement** fraud worth nearly £14.6 million. In 2013/14, they detected 127 cases worth less than £4.5 million.

- A small minority of 39 councils **failed to detect any non-benefit frauds** in 2013/14. This number is down by more than half since 2012/13, which is encouraging. Our experience suggests it is extremely unlikely that no non-benefit fraud occurred at these councils.
- Councils believe that organised criminals present a low risk of fraud, but there is concern that organised crime is more prevalent in procurement fraud.

### **Councils are detecting more housing tenancy fraud**

- The number of social homes recovered from tenancy fraudsters increased by 15 per cent in the last year to 3,030.
- In 2013/14, councils outside London recovered more than two in five (40 per cent) of these homes. This represents a marked improvement in their performance. In 2009, when the Audit Commission's *PPP* reports first highlighted this issue, councils outside London accounted for less than 5 per cent of all social homes recovered.
- These figures do not include fraud against housing associations, which provide the majority of social homes.

### **. . . and more fraud in schools.**

- Detected cases of fraud in maintained schools have risen by 6 per cent to 206, worth £2.3 million. We have no data on fraud in non-maintained schools.
- Most of these frauds were committed by staff, suggesting that some schools may have weak governance arrangements that mean they are more vulnerable to fraud.

### **Local government bodies have a duty to protect the public purse. A corporate approach to tackling fraud helps them to be effective stewards of scarce public resources and 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 fraudsters face.
- **Investigation and detection:** between 2009/10 and 2013/14, the mean average number of 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 (see Chapter 4).

- **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.
- In 2013, only three in five (62 per cent) councils took up the offer of receiving one of the Commission's new **fraud briefings**, which contain comparative information on their detection levels.

**From April 2015, the Commission's counter-fraud activities will transfer to new organisations.**

- When the Commission closes, the National Fraud Initiative's (NFI) data matching service will transfer to the Cabinet Office.
- The remainder of our counter-fraud staff and functions, including the *PPP* series and fraud briefings, will transfer to the Counter Fraud Centre, run by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## Recommendations

### All local government bodies should:

- a) use our checklist for councillors and others responsible for audit and governance (Appendix 2) to review their counter-fraud arrangements (Para. 120);
- b) adopt a corporate approach to fighting fraud, to ensure they fulfil their stewardship role and protect the public purse from fraud (Para. 78);
- c) actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI) (Para. 6);
- d) assess themselves against the framework in CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption (Para. 115); and
- e) engage fully with the new CIPFA Counter Fraud Centre (Para. 132).

### Councils in particular should:

- f) protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud (Para. 100);
- g) be alert to the risk of organised crime, notably in procurement (Para. 31);
- h) be alert to the risks of fraud, particularly in growing risk areas such as Right to Buy (Para. 51) and social care (Para. 54);
- i) apply the lessons from the approach encouraged by *PPP* to tackle housing tenancy fraud, to other types of fraud (Para. 57);
- j) focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources (Para. 80);
- k) focus more on recovering losses from fraud, using legislation such as the Proceeds of Crime Act (Para.114); 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 (Para. 129).

**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 (Para. 125);
- n) extending the requirement to report information on detected cases of fraud to academies and free schools (Para. 48);
- o) commissioning research into the extent of the annual loss to local authority fraud and the costs and benefits of fraud prevention activities (Para. 83);
- 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 (Para. 85);
- q) extending powers for councils to investigate all frauds, to protect the public purse (Para. 91); and
- r) working with councils to anticipate and mitigate any unintended risks of fraud created by new policies (Para. 42).

# Chapter 1: Introduction

## **This is the last report in the *Protecting the public purse (PPP)* series from the Audit Commission before it closes at the end of March 2015.**

**1** The first series of *PPP* reports ran from 1991 to 2000. After a gap of nine years, we relaunched the series following requests from local government bodies. Since then, we have reported figures on fraud detected by those organisations each year.

**2** As in earlier reports, *PPP 2014* describes year-on-year changes in cases and values of detected fraud, based on the Commission's annual survey of local government bodies. As it is the last report in this series, it also describes trends in the past five years, and draws on the learning from the Commission's 25-year experience in counter-fraud in local government.

**3** *PPP 2014* aims to inform the development of effective counter-fraud in local government after the Commission closes. It is designed for those responsible for governance in local government, particularly councillors, and describes:

- the amount of detected fraud reported by local government bodies<sup>i</sup> in 2013/14, compared with 2012/13 (Chapter 2);
- longer term trends (up to 25 years) in levels of detected fraud, and the lessons local government bodies can draw from this information (Chapter 3);
- the effective stewardship of the public purse, including taking measures to recover losses from fraud (Chapter 4); and
- measures to build on *PPP*'s legacy, so that local government bodies can continue to protect the public purse (Chapter 5).

**i** For the purposes of this survey we define fraud as an intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where management authorised action has been taken including, but not limited to, disciplinary action, civil action or criminal prosecution.



- 4 Appendices to this report contain:
- data tables of detected frauds and losses by region (Appendix 1);
  - an updated counter-fraud checklist for those responsible for governance (Appendix 2); and
  - case studies highlighting use of legislation, in particular the Proceeds of Crime Act, to recover monies from fraudsters (Appendix 3).
- 5 Each *PPP* report has identified the scale of detected fraud and the damage it causes<sup>i</sup>.

### The scale and impact of fraud

- Local government fraud involves substantial loss to the public purse. The most recent estimate of the annual loss to local government was £2.1 billion, excluding benefit fraud (Ref.1).
- This almost certainly underestimates the true cost of fraud. For example, it does not include fraud in major services such as education and social care.
- Each pound lost to fraud represents a loss to the public purse and reduces the ability of local government bodies to provide services to people who need them. Fraud is never a victimless crime.

*Source: Audit Commission*

### The changing counter-fraud landscape

6 When the Commission closes, its National Fraud Initiative (NFI) data matching service will transfer to the Cabinet Office. The remaining counter-fraud functions of the Commission will transfer to the new Counter Fraud Centre, launched in July 2014 by the Chartered Institute of Public Finance and Accountancy (CIPFA).

7 The CIPFA Counter Fraud Centre will also publish the next *Fighting Fraud Locally* strategy for local government, following the closure of the National Fraud Authority (NFA) in March 2014. However, there are no arrangements to continue the NFA's *Annual Fraud Indicator*, in particular, which is the annual estimate of the level of fraud committed against local authorities.

<sup>i</sup> Audit Commission reports can be obtained through this link: <http://www.audit-commission.gov.uk/information-and-analysis/national-studies/>

8 Other changes include the creation of the National Crime Agency, established in 2014, which has taken over some of the activities previously carried out by the Serious and Organised Crime Agency (SOCA).

9 For councils, the most important change in their counter-fraud arrangements is the transfer of most of their benefit fraud investigators to the Single Fraud Investigation Service (SFIS), which is managed by the Department for Work and Pensions (DWP). The transition to the SFIS began in July 2014 and will be complete by March 2016.

10 The Department for Communities and Local Government (DCLG) has awarded £16 million through a challenge fund for two years from 2014. Councils whose bids were 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 to councils in the future.

### The main issues councils face in tackling fraud

11 Because of these changes, the 2014 survey asked councils to identify the top three issues they face in tackling fraud. Councils report that the single most important issue is the need to ensure they have enough counter-fraud capacity (Figure 1).

Figure 1: **Main issues faced by councils in tackling fraud**



**Top 3**  
issues for councils:  
capacity, data-sharing and corporate recognition of the financial benefits of tackling fraud

Source: Audit Commission (2014)

**12** In the survey, councils identified other concerns that indicate a need for a more effective corporate approach to fighting fraud. These include:

- 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.

**13** *PPP 2014* addresses all these issues. Chapter 2 sets out the scale of the fraud they relate to, and how this has changed since 2012/13.

## Chapter 2: The latest figures on detected fraud in councils

**Local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, the value of losses from detected fraud increased.**

**14** Each *PPP* report draws on data collected by the Commission's annual survey of detected fraud in local government bodies. *PPP 2014* uses data from the 2014 survey, which covered the 2013/14 financial year.

**15** The latest survey achieved a 100 per cent response rate, with responses from 494 local government bodies<sup>i</sup>. These 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.

**16** Local government bodies detected fewer frauds in 2013/14 (just over 104,000) compared to the previous year (just under 107,000) (Table 1). The value of fraud detected in 2013/14 increased over the previous year, rising from £178 million to £188 million.

**100%** of  
local  
government  
bodies  
surveyed for  
*PPP 2014*  
responded

**£188**  
million,  
of local  
government  
fraud detected  
in 2013/14, the  
highest value  
on record

<sup>i</sup> All English principal councils, local authorities for parks, waste, transport, fire and rescue, and Police and Crime Commissioners are required to complete the survey.

Table 1: **Cases and value of detected fraud, excluding tenancy fraud<sup>i</sup> - Change between 2012/13 and 2013/14**

Type of fraud	For detected fraud in 2013/14 (excludes tenancy fraud)	For detected fraud in 2012/13 (excludes tenancy fraud)	Change in detected fraud 2012/13 to 2013/14 (%)
<b>Total fraud</b>			
Total value	£188,249,422	£177,966,950	+6
Number of detected cases	104,132	106,898	-3
Average value per case	£1,808	£1,665	+9
<b>Housing and council tax benefit<sup>ii</sup></b>			
Total value	£128,973,530	£120,100,854	+7
Number of detected cases	46,690	46,964	-1
Average value per case	£2,762	£2,557	+8
<b>Council tax discounts</b>			
Total value	£16,895,230	£19,567,665	-14
Number of detected cases	49,428	54,094	-9
Average value per case	£342	£362	-6
<b>Other frauds</b>			
Total value	£42,380,662	£38,298,431	+11
Number of detected cases	8,014	5,840	+37
Average value per case	£5,288	£6,558	-19

Source: Audit Commission

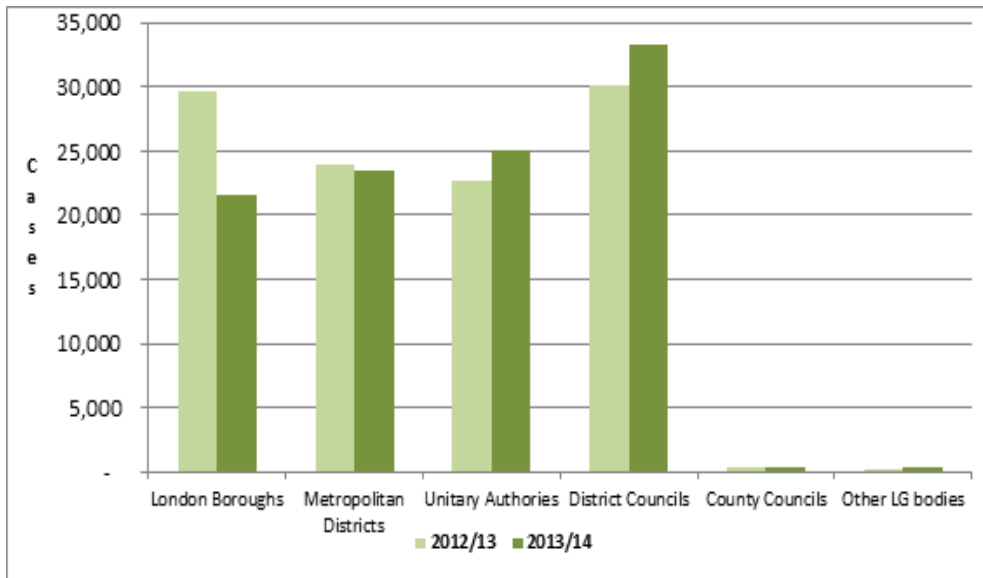
<sup>i</sup> We report housing tenancy fraud in Table 3.

<sup>ii</sup> In April 2013, the government introduced Council Tax Reduction, to replace Council Tax Benefit (CTB). Council Tax Reduction is not a benefit, but to aid year-on-year comparisons, it is included in housing benefit and council tax benefit fraud figures for 2013/14.

17 The 3 per cent reduction in the total number of cases of detected fraud over the previous year was not uniform across councils. It is largely due to falls in London boroughs and metropolitan districts. Unitary authorities and district councils detected more fraud in 2013/14 than the previous year (Figure 2).

Figure 2: **Detected fraud cases**

Comparison by local government organisation 2012/13 and 2013/14

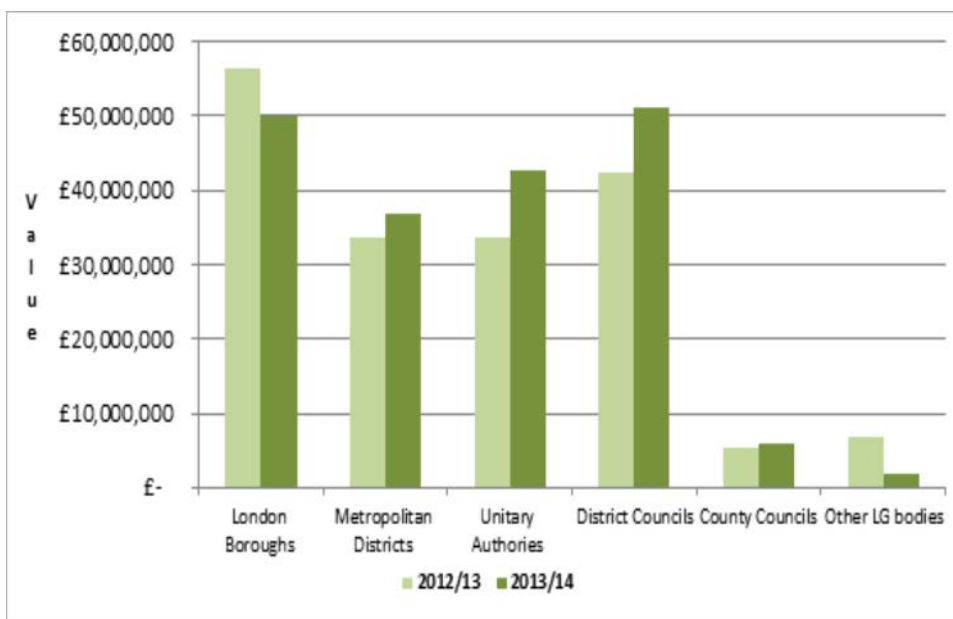


Source: *Audit Commission (2014)*

18 A similar picture emerges for changes in the value of detected frauds. This has increased by 6 per cent overall, from £178 million to £188 million, but varies across council types (Figure 3).

Figure 3: **Detected fraud by value**

Comparison by local government organisation in 2012/13 and 2013/14



Source: Audit Commission (2014)

19 The value of detected fraud rose in metropolitan district councils, unitary authorities, district councils and county councils compared with the previous year. It fell in London boroughs by 11 per cent.

## Benefit fraud

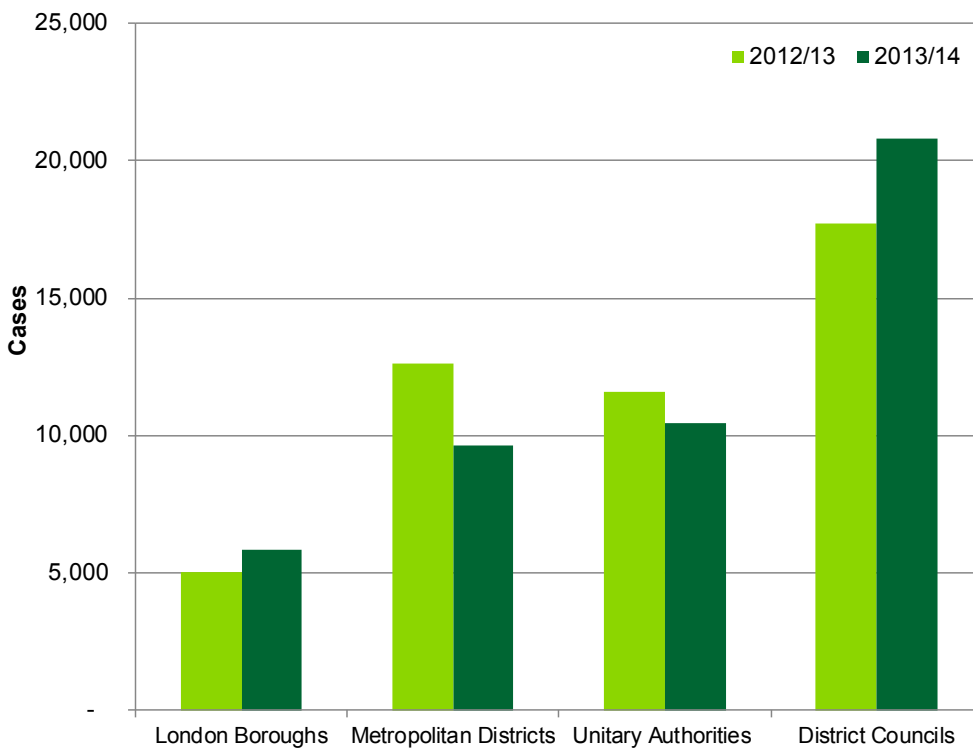
20 In 2013/14, housing benefit and council tax benefit frauds comprised 45 per cent of all fraud cases, but accounted for 69 per cent of the value of all detected frauds.

21 In 2013/14, district councils detected 20,798 benefit fraud cases; an increase of 17 per cent compared to the previous year (Figure 4). They detected not just the highest total overall compared with other councils, but also the highest as a proportion of their benefit caseloads (1.6 per cent). In contrast, London boroughs recorded both the lowest overall number of detected cases of benefit fraud (despite a rise of 16 per cent over the previous year) and the lowest as a proportion of their caseload, at 0.7 per cent.

**17% rise**  
in the number  
of cases of  
benefit fraud  
detected by  
district  
councils

Figure 4: **Detected benefit fraud cases**

Comparison of council types in 2012/13 and 2013/14



Source: *Audit Commission (2014)*

22 Both metropolitan district councils and unitary authorities reported substantially fewer cases of benefit fraud than the previous year; down 24 per cent and 10 per cent respectively. Each detected around the same proportion of their overall caseload, at 0.9 per cent and 1.0 per cent respectively.



## Non-benefit fraud

23 Table 2 highlights the largest frauds in the 'other' group in Table 1, which between them account for £36.5 million of the £188.2 million detected by councils in 2013/14.

Table 2: Other frauds against councils in 2012/13 and 2013/14

Fraud type	Number of cases 2013/14	Value 2013/14 (£ million)	Number of cases 2012/13	Value 2012/13 (£ million)	Change in case number 2012/13 to 2013/14 (%)	Change in case value 2012/13 to 2013/14 (%)
Right to Buy	193	12.4	102	5.9	+89	+110
Social care	438	6.3	200	4.0	+119	+58
Insurance	226	4.8	74	3.0	+205	+60
Procurement	127	4.4	203	1.9	-37	+132
Abuse of position	341	4.0	283	4.5	+20	-11
Disabled parking concessions (Blue Badge)	4,055	2.0	2,901	1.5	+40	+33
Business rates	84	1.2	149	7.2	-44	-83
Payroll	432	1.4	319	2.4	+35	-42

Source: Audit Commission (2014)

24 Care is needed in interpreting these results, as annual percentage changes in value can be affected by a few very costly frauds in either year. For example, the value of business rates fraud fell by 83 per cent, largely because there was an unusually high value (£5 million) single fraud in one council in 2012/13. Procurement fraud is another example of a few costly frauds; cases have fallen by over a third (37 per cent), but their value has more than doubled (132 per cent).

25 Taken together, the number of cases of non-benefit fraud in Table 2 has risen by 39 per cent between the two years, while their overall value has risen by 20 per cent.

26 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<sup>i</sup> – 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.

**205%**  
increase in the  
number of  
cases of  
insurance  
fraud for  
2013/14 worth  
£4.8 million

<sup>i</sup> This fraud arises most commonly from members of the public who make false claims for compensation for accidents (known as ‘trips and slips’).

## Housing tenancy fraud

27 The number of social homes recovered from tenancy fraudsters increased by 15 per cent in the last year (Table 3).

Table 3: **Detected tenancy fraud by region**

2012/13 to 2013/14

Region	Number of properties in housing stock (% of national housing stock)	Number of properties recovered in 2013/14	Number of properties recovered in 2012/13	Percentage change in the number of properties recovered 2012/13 to 2013/14
London	419,238 (25)	1,807	1,535	+18
West Midlands	208,740 (12)	425	416	+2
South East	174,313 (10)	129	132	-2
East of England	159,216 (9)	187	133	+41
East Midlands	182,950 (11)	136	102	+33
Yorkshire & the Humber	234,335 (14)	140	108	+30
South West	100,867 (6)	111	56	+98
North East	112,444 (7)	59	34	+74
North West	109,045 (6)	36	126	-71
<b>Total</b>	<b>1,701,148 (100)</b>	<b>3,030</b>	<b>2,642</b>	<b>+15</b>

Source: Audit Commission (2014)

28 All but two regions detected more tenancy frauds in 2013/14 than in the previous year. The exceptions were the North West, where councils detected 71 per cent fewer cases, and the South East, where councils detected slightly fewer cases (down 2 per cent).

## Organised and opportunistic fraud

**29** The 2013/14 survey asked councils to indicate the extent to which they believed fraud was due to organised criminal activity, rather than to individuals acting alone. The survey used the National Crime Agency definition of organised crime as 'crime planned, coordinated and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain' (Ref. 2).

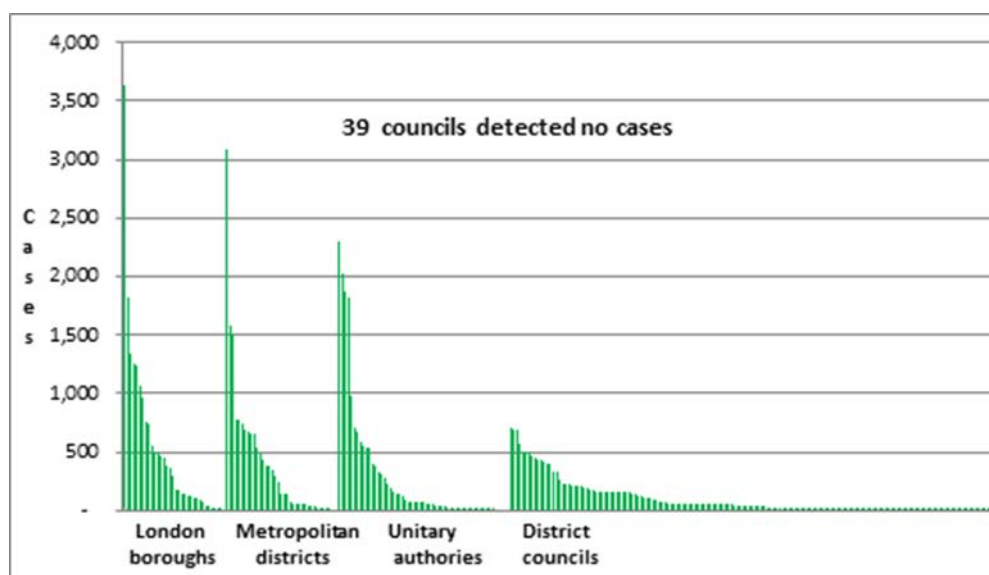
**30** Only 32 of 353 councils reported frauds they believed were linked to organised crime. They were most likely to detect the involvement of organised crime in housing benefit (11 councils), which probably reflects the greater number of detected frauds in this category.

**31** These results suggest that organised criminals do not commit much fraud against councils. 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 (Ref. 3, p 55). Councils should be alert to the risk of organised crime and ensure their defences remain appropriate for the task.

## Failing to detect fraud

32 In *PPP 2013* (Ref. 4), we reported that 79 district councils had not detected a single non-benefit fraud, compared with only 9 councils among London boroughs, metropolitan districts and unitary authorities combined. In 2013/14, the equivalent figures were 35 district councils 3 unitary authorities and 1 metropolitan district (Figure 5)<sup>i</sup>.

Figure 5: **Number of detected non-benefit cases by council type (excluding county councils) in 2013/14**



Source: *Audit Commission (2014)*

33 While it is encouraging that the number of councils that did not detect any non-benefit fraud has fallen by half, it remains disappointing that 39 councils failed to detect any non-benefit fraud. 21 district councils and one unitary authority reported no detected non-benefit frauds in both years. Our experience suggests it is extremely unlikely that no non-benefit fraud was committed against them.

34 Year-on-year trends help local government bodies manage current fraud risks. Longer term trends better enable them to understand whether they are matching their resources to risks effectively. Chapter 3 covers fraud detection over the medium to long terms.

**39 councils** did not report any detected cases of non-benefit fraud in 2013/14, less than half the number of the previous year

<sup>i</sup> Figure 5 excludes county councils as they do not provide high-volume services such as council tax.

## Chapter 3: Longer term trends in frauds detected by councils

**Trends in detected fraud since 1991 show how councils have changed the way they tackle fraud in response to changing national policies and incentives. This chapter draws on the learning from the Commission's 25 years' experience in counter-fraud.**

**35** This chapter considers trends in detected fraud over the last 25 years, with more detailed information about the last five years from 2009/10 to 2013/14. It also highlights how the Commission's approach to tackling tenancy fraud could be applied in other areas, where risks are growing.

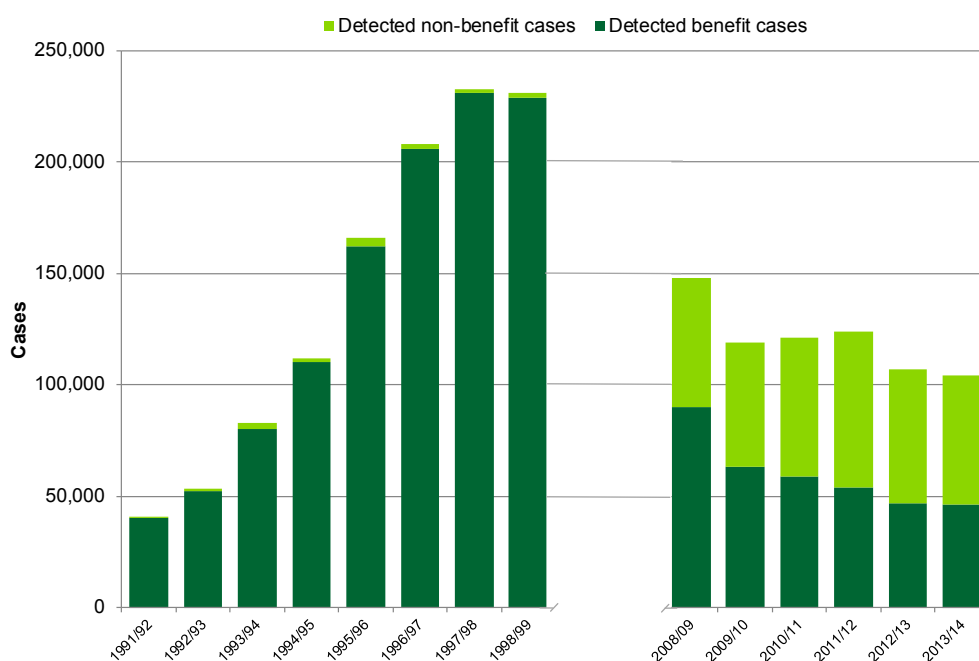
### **The shift in focus from benefit fraud to non-benefit fraud**

**36** Between 1991 and 2000, councils prioritised detecting benefit fraud. In 1991, only 2 per cent of cases of detected fraud related to non-benefits. When the *PPP* series restarted in 2009, nearly two in five (39 per cent) of all cases detected were of non-benefit fraud. By 2013/14, this had risen to over half (56 per cent) of all frauds detected (Figure 6)

**In the last  
5 years, the  
focus has  
shifted from  
benefit to non-  
benefit fraud**

Figure 6: **The shift from benefit to non-benefit fraud<sup>i</sup>**

Detected cases 1991/92 to 2013/14



Source: Audit Commission (2014)

**37** In 1993, the government introduced Weekly Benefit Savings (WBS), which created an incentive for councils to focus on benefit fraud. WBS ceased in 2002 and its replacement – Security Against Fraud and Error (SAFE) – ended in 2006<sup>ii</sup>. This removed a direct financial incentive for councils to focus on benefit fraud.

**38** The transition to the SFIS in 2016 means, from that year, councils will focus solely on non-benefit fraud. Some councils, particularly small and medium-sized organisations, have traditionally relied on benefit fraud investigators to tackle non-benefit frauds. It is unclear if these councils, and some others, will be able to refocus their efforts and resources on non-benefit frauds once the SFIS is in place.

**39** From 2009, *PPP* reports contained information about a wider range of non-benefit frauds than the earlier series, such as fraud detected within procurement or social care. This was to help local government bodies better understand the extent of the risks they face.

<sup>i</sup> Data are not available from 1999/2000 to 2007/08 because *PPP* did not operate in this period.

<sup>ii</sup> Under WBS, councils received funding, or were penalised, depending upon their achieving baseline levels of detected benefit fraud set by the government. Under SAFE, councils received additional funding based on the number of prosecutions and sanctions.

40 Table 4 provides further information about the more recent history of the detected cases and values of these non-benefit frauds. Between 2009/10 and 2013/14, the main findings are that:

- councils have consistently detected more council tax discount fraud than any other type of non-benefit fraud (nearly 50,000 cases in 2013/14);
- council tax discount frauds have the lowest average value of all non-benefit frauds (£342 in 2013/14), but the scale of fraud in this area means they generate the biggest losses – £16.9 million in 2013/14;
- detected Right to Buy fraud cases have substantially increased in the last two years to 193 in 2013/14. Because their average value is over £64,000, they generate substantial losses of £12.4 million in that year;
- the number of detected cases of social care fraud more than trebled over the period to 438. With an average value in 2013/14 of £14,297, they account for £6.3 million in losses;
- the number of detected business rates frauds has fluctuated, rising from only 29 in 2009/10 to 319 in 2011/12 and then declining to 84 in 2013/14<sup>i</sup>; and
- the number of detected cases of insurance fraud similarly fluctuated over the last five years, but in 2013/14 councils detected three times as many of these frauds as in 2009/10.

**Right to Buy  
fraud cases  
increased in  
number by  
over 400%  
between April  
2012 and  
March 2014**

<sup>i</sup> This recent decline is unexpected, especially given the impact of the change in financial incentives from April 2013 for councils to tackle this fraud.



Table 4: Cases and value (adjusted for inflation) of detected non-benefit fraud between 2009/10 and 2013/14

		Council tax discount	Business rates	Right to Buy	Procurement	Insurance	Social care	Economic/ third sector	Blue badge
2013/14	Cases	49,428	84	193	127	226	438	36	4,055
	Value	£16,895,230	£1,220,802	£12,361,858	£4,437,965	£4,776,300	£6,261,930	£741,867	£2,027,500
	Average	£342	£14,533	£64,051	£34,945	£21,134	£14,297	£20,607	£500
2012/13	Cases	54,094	149	102	203	74	200	36	2,901
	Value	£19,905,056	£7,348,809	£5,959,424	£1,910,317	£3,026,996	£4,040,356	£1,299,707	£1,475,510
	Average	£368	£49,321	£58,426	£9,410	£40,905	£20,202	£36,103	£509
2011/12	Cases	60,891	319	38	187	132	122	45	4,809
	Value	£21,338,364	£2,651,726	£1,219,439	£8,297,496	£2,107,680	£2,216,681	£1,808,287	£2,472,366
	Average	£350	£8,313	£32,090	£44,372	£15,967	£18,170	£40,184	£514
2010/11	Cases	56,198	319	49	145	149	102	51	3,007
	Value	£23,599,729	£6,010,804	£1,090,538	£15,314,712	£3,905,680	£2,333,326	£1,361,079	£1,580,820
	Average	£420	£18,843	£22,256	£105,619	£26,213	£22,876	£26,688	£526
2009/10	Cases	48,253	29	34	165	72	131	47	4,097
	Value	£16,412,858	£660,891	£739,881	£2,962,701	£3,077,562	£1,534,013	£968,077	£2,210,152
	Average	£340	£22,789	£21,761	£17,956	£42,744	£11,710	£20,597	£539

**41** Councils have to be alert to both the intended and unintended consequences of government policies. Some are directly intended to change local practice, such as the introduction of the SFIS. Others create new services or means of delivery that may produce unintended incentives and opportunities for fraudsters, such as raising the discount threshold for Right to Buy.

**42** Central and local government can work together to anticipate and mitigate the risks of fraud created by new policies. This helps councils to adapt their counter-fraud approach to meet both intended and unintended consequences of government policies.

**43** Frauds committed in schools and those committed by staff are included in all fraud categories. For this reason, we do not identify them separately in Table 4, but give more information in the following sections.

## Internal fraud

44 Since 2009/10, councils have detected broadly similar numbers of internal fraud, although their values have fluctuated. In 2013/14, councils detected nearly 1,500 cases of this type of fraud, generating £8.4 million in losses (Table 5).

**£8.4**  
**million** of  
internal fraud  
detected by  
councils

Table 5: **Detected cases and values of internal (staff) fraud<sup>i</sup>**  
2009/10 to 2013/14

Financial year		Cases and values (and as a % of total for each)
2013/14	Cases	1,474 (1.4%)
	Value	£8.4m (4.5%)
	Average	£5,750
2012/13	Cases	1,315 (1.2%)
	Value	£16.8m (9.3%)
	Average	£12,751
2011/12	Cases	1,459 (1.2%)
	Value	£15.9m (8.8%)
	Average	£10,917
2010/11	Cases	1,581 (1.3%)
	Value	£20.5m (10.5%)
	Average	£12,969
2009/10	Cases	1,659 (1.4%)
	Value	£8.6m (5.9%)
	Average	£5,207

Source: Audit Commission (2014)

<sup>i</sup> Total and average fraud values for years between 2009/10 and 2012/13 are adjusted for inflation using HM Treasury's GDP Deflator. These values will thus differ from those in previous PPP reports.

## Fraud in maintained schools

45 Schools<sup>i</sup> can be defrauded by those working in them, for example, staff who embezzle school funds, commit payroll fraud, or who claim false expenses. Externally, schools may be victims of procurement fraud and mandate fraud<sup>ii</sup>, among other types.

46 In 2013/14, we report a total of 206 cases of schools fraud worth £2.3 million. This is an 8 per cent increase in cases over the previous year, and a less than 1 per cent increase in value (Table 6).

**Councils report a rise of 8% in the value of fraud detected at maintained schools**

Table 6: **Detected fraud in maintained schools**

Change from 2012/13 to 2103/14

Fraud in maintained schools	2013/14	2012/13	Percentage change 2012/13 to 2013/14
Total value	£2,330,416	£2,323,856	+1
Number of detected cases	206	191	+8
Average value per case	£11,313	£12,167	-7

Source: *Audit Commission (2014)*

47 Of these frauds, over half (54 per cent) of cases and nearly two-thirds (62 per cent) of the value involved fraud by staff. These are substantially higher proportions than in other local government services. These findings are similar to those in *PPP 2013*, which suggests that schools may have weaker governance arrangements and less effective controls than larger organisations to detect and prevent fraud.

48 It is important for maintained schools to continue to report the number and value of detected fraud to keep focus on this issue. The Commission would like to see similar transparency across all non-maintained schools to protect the public purse. The risk of fraud in non-maintained schools is becoming more apparent (Ref. 5).

49 The CIPFA Centre for Counter Fraud has recently published good practice guidance on tackling schools fraud (Ref. 6).

<sup>i</sup> In our annual fraud survey, we only collect data from maintained schools. Free schools, foundations and academies are outside the Commission's remit.

<sup>ii</sup> Mandate fraud is where fraudsters divert payments, by deception, from the bank account of legitimate companies into the fraudster's own bank account.

## Councils' response to national policies

50 The unintended consequence of some changes in government policy is to make some frauds more attractive to fraudsters. In *PPP 2012*, for example, we suggested that significant increases in the Right to Buy discount implemented in that year is likely to increase the financial incentive to commit fraud in this area.

51 Table 4 shows that councils detected nearly six times as many Right to Buy frauds in 2013/14 as in 2009/10. From April 2012, the government brought in measures to encourage tenants to use the Right to Buy scheme. These included relaxing the qualifying rules and raising the discount threshold, which will rise in line with inflation.

52 These changes encouraged substantially more Right to Buy applications. They 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.

53 Social care provides another example of the effect of national policies. 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 (Ref. 7).

54 The policy of more choice and local control has, however, changed the scale of the fraud risks councils face. Cases of detected social care fraud increased from 131 in 2009/10 to 438 in 2013/14. In 2013/14, however, a majority of all councils except London boroughs did not detect a single social care fraud (Table 7).

**Changes in government policy can have unintended consequences**

Table 7: Councils reporting no detected social care fraud in 2013/14

Council type	Proportion not reporting any detected social care fraud
Unitary authorities	62%
Metropolitan districts	53%
County councils	52%
London boroughs	39%

Source: Audit Commission (2014)

55 Councils are detecting more cases of detected fraud in social care (see Table 4). This suggests that the risks of fraud in this service are growing, and also that some councils are taking this risk seriously. If all councils did so, the number of detected cases might rise further.

**56** More research is needed to identify the nature and quantify the extent of frauds in education and social care, which together account for 62 per cent of all councils spending in 2012/13 (excluding benefit payments) (Ref. 8, Figure 1, page 2). Similarly, more research would also help councils to quantify the extent of fraud in business rates, for which they collected £21.9 billion in 2012/13 (Ref. 9, Para.1).

**57** The increased detection of housing tenancy fraud provides a good example of the benefits greater information and attention brings. Since 2009, tenancy fraud has been a regular focus of *PPP* reports. We believe that councils can apply the learning from our approach to tenancy fraud to new and emerging fraud threats.

## Housing tenancy fraud

**58** Tenancy fraud is now recognised as the second largest area of annual fraud loss in English local government, valued at £845 million. There is a further £919 million of annual loss to housing associations (Ref. 1).

**59** *PPP*'s focus on tenancy fraud shows the benefit of regular reporting on rates of detected fraud, combined with supporting research. This approach has produced more reliable estimates of the extent and value of this type of fraud. It has also challenged myths and misconceptions about tenancy fraud and encouraged organisations to work together to share innovative approaches to tackling it. Similar action would help councils to tackle other types of fraud.

**60** Prior to 2009, there was no national estimate of the scale of tenancy fraud, or of the value of a social home recovered from a fraudster, and no regional information on detection. Some social housing providers were reluctant to recognise this type of fraud, on the grounds that as long as the fraudster occupying the property was paying rent, they suffered no financial loss.

**61** This encouraged many myths to build up, for example, that tenancy fraud was only a problem in London. This led some councils outside the capital to conclude they did not need to take any action to prevent or detect it.

**62** The Commission published the first robust research in the UK that challenged such myths. *PPP* reports contained good practice examples of social housing providers within and outside the capital that had increased cases of detected tenancy fraud.

**63** We published a cautious estimate of the extent of tenancy fraud in *PPP 2009* (updated in *PPP 2012*), which is widely accepted across England. Our research was used as the principal evidence base for a new offence specific to tenancy fraud, contained in the Prevention of Social Housing Fraud Act 2013.

**At £845 million, tenancy fraud represents the second largest yearly loss to councils from fraud**

64 Above all, we worked in partnership with key stakeholders, such as the Chartered Institute of Housing (CIH), the National Fraud Authority and the national Tenancy Fraud Forum, to identify and promote good practice and to encourage councils and housing associations to work together to fight fraud.

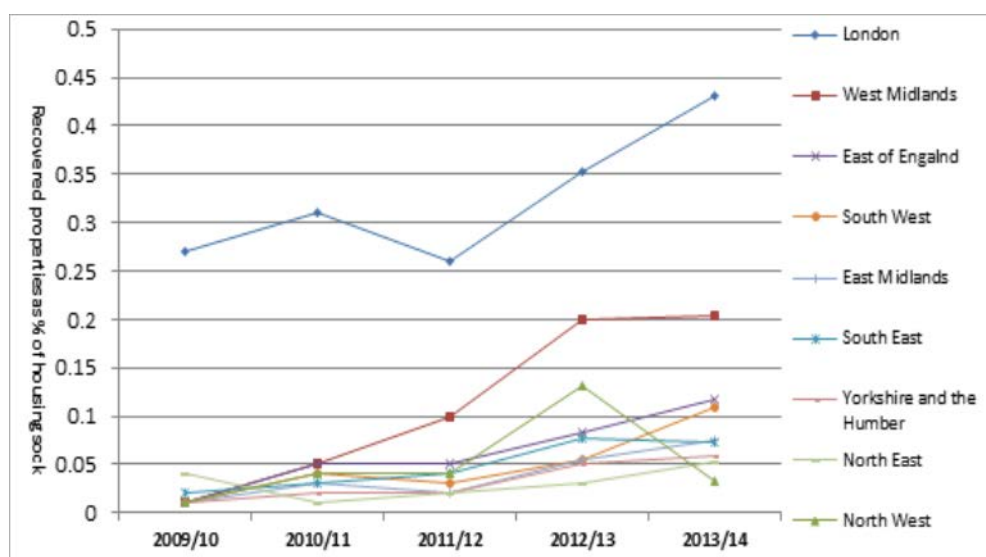
65 We believe that this approach helped to publicise the issues and encouraged social housing providers to combat tenancy fraud more effectively. Between 2009/10 and 2013/14, the total number of detected cases of housing tenancy fraud increased by 92 per cent.

66 The rate of improvement outside London has been substantial: in 2009/10, these councils only recovered 228 properties, but in 2013/14, this had risen to 1,223, an increase of 436 per cent.

67 Between 2009/10 and 2013/14, while the overall trend of recovery increased, the rate of recovery was uneven across regions (Figure 7).

**436%**  
increase in properties recovered, from housing tenancy fraudsters, outside of London in the last five years

Figure 7: Recovered properties as a proportion of council housing stock in each region 2009/10 to 2013/14



Source: Audit Commission (2014)

68 London has consistently detected the most tenancy frauds, measured as a proportion of total housing stock. The North West now detects proportionately the fewest tenancy frauds, which is the result of a decline in the last year. Had councils in this region maintained the same rate of detection as a proportion of their housing stock as in 2012/13, around 90 additional homes would have been available for families on the waiting list.

69 If all councils assigned resources to tackle tenancy fraud proportionate to their total stock, and adopted recognised good practice, then regional detection rates should be broadly similar. The fact they are not suggests that some councils can raise their performance.

**70** In 2014, the Chartered Institute of Housing published updated good practice on tackling tenancy fraud (Ref. 10).

**71** The Commission reports detection rates by councils and Arm's Length Management Organisations only. Information from housing associations is not universally available. However, as previous *PPP* reports have shown, some housing association partnerships have made good progress.

### Case study 1

#### Tenancy Fraud Forum – partnership working

- The Gloucestershire Tenancy Fraud Forum (GTFF) was formed in 2012 by seven social housing providers in the local area (Cheltenham Borough Homes, Gloucester City Homes, Severn Vale Housing Society, Two Rivers, Rooftop Housing Group, Stroud District Council and Guinness Hermitage). Prior to forming GTFF, individual member organisations detected few tenancy frauds.
- From 2012, GTFF members started sharing good practice, carrying out joint staff training and in particular undertook a local media-based awareness raising campaign. This resulted in a large increase in reports of suspected tenancy fraud.
- Following the campaign, GTFF recovered 107 homes from tenancy fraudsters in 2013/14. To build an equivalent number of homes from new would have cost the public purse over £16 million<sup>i</sup>.

*Source: Audit Commission (2014)*

**72** Some innovative housing providers used the launch of the 2013 Prevention of Social Housing Fraud Act as an opportunity to publicise their own tenancy fraud amnesties.

<sup>i</sup> In PPP 2011, we calculated the replacement cost of an average social housing unit to be £150,000.



## Tenancy fraud amnesties

**73** Amnesty can be a useful option for social housing providers to recover properties from tenancy fraudsters. When implemented properly, they can have considerable impact at low cost.

**74** In 2013, the London Borough of Camden offered an amnesty lasting two months. In this time, tenancy fraudsters could hand back the keys to properties they had unlawfully occupied or sub-let, without further action taken on cases that were not being prosecuted for other offences.

Fraudsters returned seven properties (with a replacement value of over £1 million) to the Council. This represented a good return on the £25,000 spent on publicising the amnesty. LB Camden recovered 103 properties subject to tenancy fraud in total during 2013/14.

**75** The publicity had wider benefits. Prior to the campaign, the Council had received just six referrals from the public to its tenancy fraud hotline. In the two months during the campaign, it received 50 calls, with many more in the months that followed. The Council launched a number of investigations as a direct result of the increased hotline referrals and has so far recovered four more properties from these referrals with a further four pending prosecution.

**76** The Peabody Housing Association saw similar benefits from an amnesty. In 2012, 40 properties were handed back to the Association. In 2013, it held a two-month amnesty, during which 42 properties with a replacement value of £6.3 million were returned. In the whole year, tenants handed back 130 properties, suggesting the amnesty possibly had a longer term effect.

**77** The approach to housing tenancy fraud in *PPP* reports since 2009 illustrates how social housing providers can change their approach to fighting one type of fraud, based on robust information and greater transparency. Adopting a similar approach to other frauds would help them fulfil their duty to protect the public purse, which Chapter 4 explores in more detail.

**Tenancy fraud amnesties may have longer term benefits**

## Chapter 4: Effective stewardship of public funds

**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, to the benefit of local and national taxpayers.**

**78** Councils are stewards of public funds and have a duty to protect the public purse from fraud. Better performing councils acknowledge this responsibility and put in place the core components of an effective corporate counter-fraud approach. These are contained in CIPFA guidance (Ref. 11) and the government Fraud Review (Ref. 12) and are:

- prevention and deterrence;
- investigation and detection; and
- sanction and redress (recovery of funds or assets).

**79** Councils face a challenge in carrying out these functions as their funding declines. This chapter considers each component in more detail and highlights examples of good practice showing how councils can develop a long-term and sustainable approach to tackling fraud.

### Prevention and deterrence

**80** Investigating fraud can be expensive for councils. They also incur costs in prosecuting fraudsters and in attempting to recover money, which is not always successful. It is usually more cost-effective to prevent fraud than to take action afterwards.

**81** In 2014, we asked over 200 fraud investigators and auditors from English local government how well their councils, or the councils they audit, prevent fraud. They believed that the strongest fraud prevention arrangements were found in housing benefits and council tax discounts, and the weakest in social care and schools.

**82** Better performing councils learn from fraud investigations, and address the weaknesses that enabled the fraud to occur. Such councils strengthen fraud prevention arrangements as a result, including deterrence.

**83** Some councils may be sceptical about the value of fraud prevention; for this reason, the sector would benefit from an agreed methodology to measure its cost-effectiveness. The government should commission such research.

**84** Even where councils obtain no direct financial benefit from preventing frauds, they should still fulfil their duty to protect the public purse by pursuing fraudsters.

## Case study 2

### Fraud prevention - Right to Buy

- In 2014, Sandwell Metropolitan Borough Council successfully prosecuted two people for a fraudulent Right to Buy application worth nearly £50,000. The fraudsters initially claimed the Right to Buy discount in 2011, making false statements about their eligibility indicating they were sisters and stating they both lived at the address. Their initial claim was refused on the grounds of failing to comply with residency requirement.
- In 2012, the fraudsters again claimed the Right to Buy discount, and again supplied false information about their relationship. The fraud was initially identified through National Fraud Initiative data matches. This enabled the Council to stop the Right to Buy before the sale was processed.
- Subsequent enquiries by the Council established that the fraudulent tenant was falsely claiming benefits, stating that she was resident at other addresses, while still claiming to be a Sandwell resident.
- The fraudsters were found guilty under the Fraud Act and each given a 20 month custodial sentence. This is one of the first successful prosecutions of Right to Buy fraud outside London.

*Source: Audit Commission (2014)*

**85** Councils increasingly use digital technology across services and functions. This reduces costs and can improve service quality, but also brings new fraud risks. Each year we adapt our annual fraud survey to gather new information about emerging fraud risks. The government should encourage the organisation carrying out the survey in the future, CIPFA, to investigate the extent to which fraudsters use digital and on-line technology to defraud local government.

**86** Innovative councils also use technology to prevent and detect fraud:

### Case study 3

#### Using technology to prevent fraud

- The London Borough of Southwark increased vetting checks at the point of application for a number of its services, to help protect valuable resources. The London Borough of Southwark is the third largest social landlord in the UK and has a large transient population.
- In 2013, The London Borough of Southwark implemented passport and identity scanners across the council at key customer contact points, including One Stop Shops, Housing Options and the Registrar's office. A mobile scanning system is also used by The London Borough of Southwark anti-fraud services and by council departments conducting specific projects. In total, 6,690 document scans were conducted in 2013/14, with 4 per cent requiring additional checks and verification as result.
- The London Borough of Southwark implemented additional verification checks on the council's waiting list, including veracity of application form information. This has reduced the number of accepted applications by 20 per cent. Additional verification checks have also been conducted on prospective tenants before they collect the keys to the tenancy. This prevented 12 per cent of all such allocations going to fraudsters.

*Source: Audit Commission (2014)*

**87** Councils can deter people from committing fraud if they set out clearly what fraud is and make clear it is likely fraudsters will be caught and punished. Professional fraud investigators believe the prospect of detection is the most powerful deterrent to committing fraud. This supports the need for councils to maintain adequate investigative capacity in a period of financial restraint.

**88** It is not currently possible to quantify accurately the financial benefit from deterring fraud. Councils can look to other indicators that may show its impact. The number of households claiming single person discount is one example, first highlighted in *PPP 2013* (Ref. 4).

**89** One-third of households in England claim single person discount. Our research (Ref. 13) suggests that typically between 4 per cent and 6 per cent of households claiming single person discount do so fraudulently.

**90** Between 2008 and 2013, the number of councils where 40 per cent or more households claimed single person discount reduced from 23 to 7. The council with the highest proportion of households claiming single person discount experienced a reduction in claims from 48 per cent to 41 per cent. One possible explanation for the decline in single person discount claims is the greater publicity from councils about this fraud in recent years.

**4% to 6%**  
**of council tax  
single person  
discount  
claims are  
typically  
fraudulent**

## Investigation and detection

**91** Fraud investigators have legal powers to investigate Council Tax Reduction frauds and housing tenancy frauds. The powers do not extend to other fraud types. This restricts their ability to investigate and detect fraud across all services, including social care and procurement. Councils need equivalent powers for all fraud types to protect the public purse effectively.

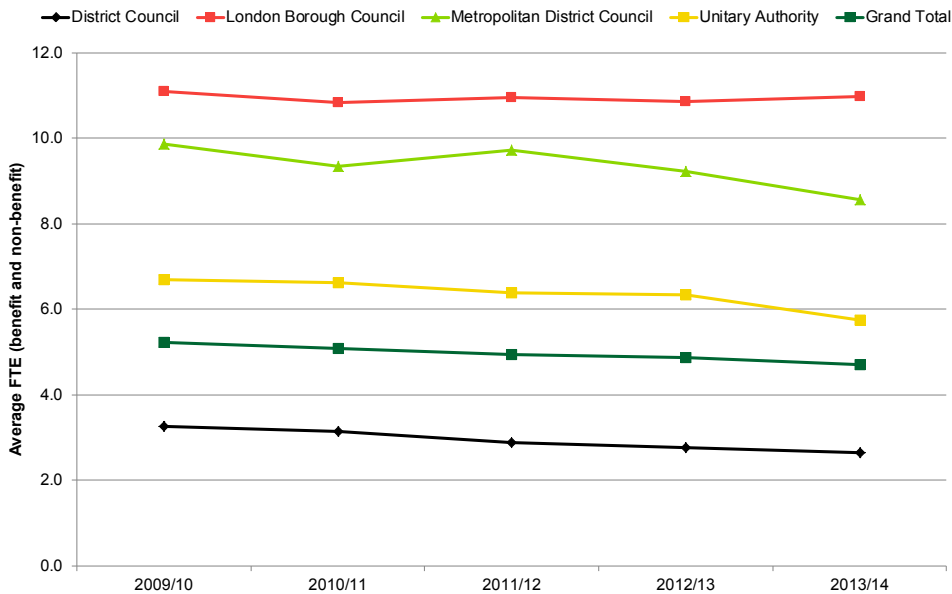
**92** Over the past 25 years, councils have substantially increased the number of benefit fraud investigators they employ. Between 1994 and 1997, staff numbers rose from 200 to over 2,000 (Ref. 14). The government encouraged councils to enhance the skills and training of these new staff. In 1998, the DWP launched the Professionalism in Security (PINS) qualification and associated training for benefit fraud investigators.

**93** *PPP 2013* (Ref. 4) reported a decline in detected fraud over the previous year; the first such fall since 2009. That report suggested further research to see whether falls in detection were linked with changes in councils' investigative capacity. Since 2010, councils have cut total staff numbers in response to reduced income<sup>i</sup> (Ref. 15).

<sup>i</sup> Across the United Kingdom, full-time equivalent staff numbers employed by local government fell from 2,160,000 in 2010 (Quarter 1) to 1,787,000 in 2014 (Quarter 1), a fall of 21 per cent.

**94** Between 2009/10 and 2013/14, the mean average number of full-time equivalent (FTE) fraud investigators employed by councils declined steadily from 5.2 to 4.7, a fall of 10 per cent (Figure 8).

**Figure 8: Average numbers of FTE fraud investigators, by council type 2009/10 to 2013/14**



Source: Audit Commission (2014)

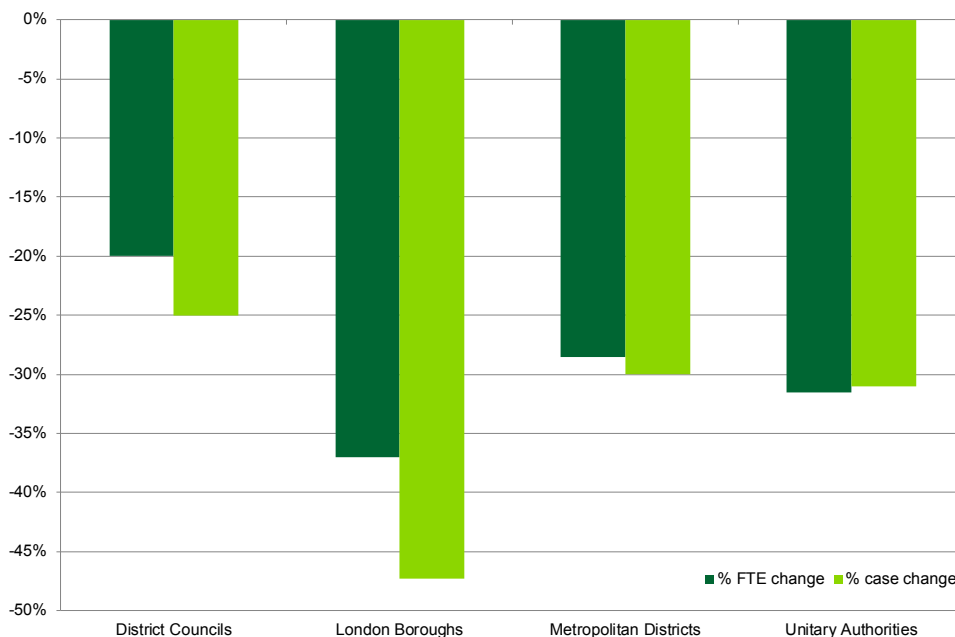
**95** London councils employ the most investigators and have seen little change at around 11 FTE staff over the whole five years. District councils have employed the fewest fraud investigators, and have seen their average FTE numbers reduce by 19 per cent, with unitary authorities and metropolitan districts reducing by 14 per cent and 13 per cent respectively.

**96** We wanted to investigate whether annual changes in staff numbers are associated with changes in the numbers of reported detected benefit and non-benefit fraud in each year within this period.

97 Not enough councils reported separate staff numbers for non-benefit fraud staff to enable analysis of this type of fraud. For benefit fraud, all council types<sup>i</sup> saw a substantial reduction in both FTE staff numbers and detected benefit fraud cases (Figure 9).

Figure 9: **Councils' capacity to detect benefit fraud**

Changes in median benefit fraud FTE numbers and detected benefit fraud cases in 2009/10 and 2013/14



Source: Audit Commission (2014)

98 Taking all councils in the analysis together, the median percentage fall in detected cases of benefit fraud exceeded that for FTE benefit fraud investigators. This was true in all councils except unitary authorities, where the percentage reductions were similar in each category.

99 London boroughs saw the largest reductions, losing nearly two in five (37 per cent) of their benefit fraud investigation staff, and nearly half (45 per cent) of their detected benefit fraud cases over the whole period. It is likely that some of this decline is due to councils in the capital refocusing their fraud investigation resources on non-benefit fraud in preparation for the introduction of the SFIS (Ref. 4, Para. 46).

100 Other councils also saw a substantial decline in their capacity to detect benefit fraud of between 20 and 30 per cent over this period. They also detected between 23 and 31 per cent fewer cases of benefit fraud. These differences are not statistically significant and data are patchy in 2010/11 and 2011/12. However, they indicate a clear decline in both counter-fraud capacity and detection rates between the two years.

**Counter fraud capacity and cases of benefit frauds detected both fell between 2009/10 and 2013/14**

<sup>i</sup> This analysis excludes county councils, which do not administer housing and council tax benefits.

**101** Levels of reported detected fraud can only give an indication of the extent of fraud committed against councils. In our experience, the more councils look for fraud, and follow good practice, the more they will find. Increasing levels of detection may therefore be a positive sign that councils take fraud seriously, rather than evidence of weak counter-fraud controls.

**102** It is becoming increasingly urgent for councils to recover losses to fraud. In 2016, the funding to aid councils refocus their activities on non-benefit frauds during the transition to the 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.

## **Sanction and redress (recovery of losses)**

**103** Councils can invoke a range of criminal and civil sanctions against fraudsters. They can impose fines (for example, a £70 fine for fraudulently claiming single person discount), and withdraw benefits, contracts or licences. In some cases, stopping the discount or service provided may be the limit of the action taken.

**104** The vast majority of frauds committed against local authorities are never pursued through the criminal courts. There are many frauds against councils (104,132 detected cases in 2013/14). With fewer staff and resources, it is appropriate for councils to follow different courses of action. This is consistent with good stewardship of public funds.

**105** Recovering funds lost to fraud can be difficult. Research suggests that, across all sectors of an economy, more than half of all fraud victims do not recover any monies. Fewer than one in ten achieves full financial restitution (Ref. 16).

**106** Councils can pursue recovery through the civil or criminal courts, but they can consider alternative means to punish fraudsters, deter potential fraudsters and also generate funds to reinvest in tackling fraud.

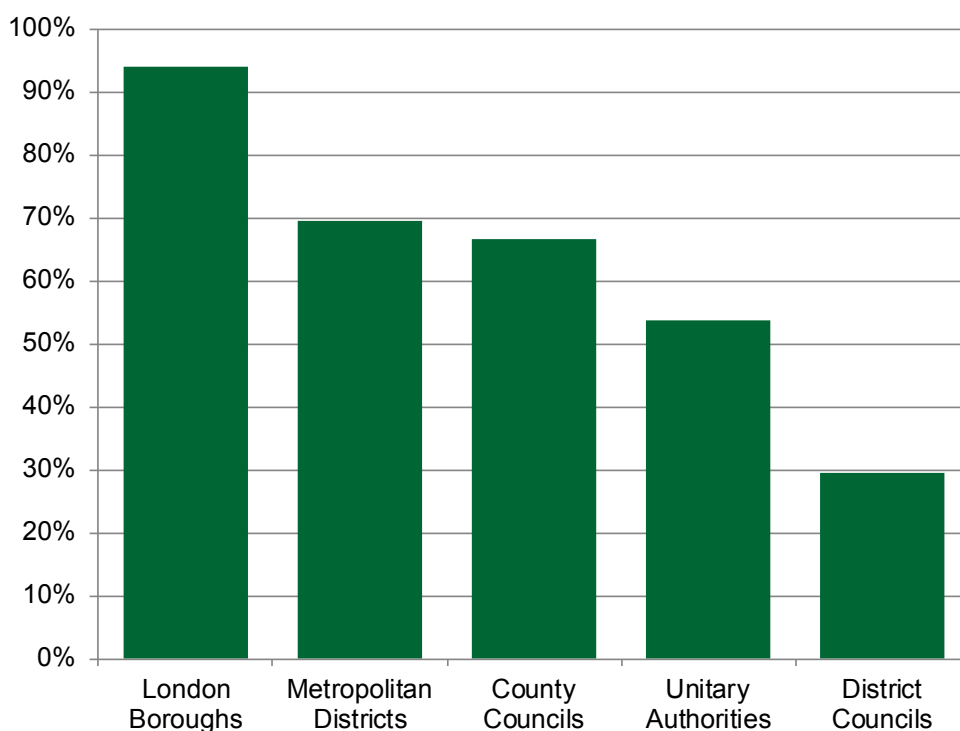
**107** In 2014, the Local Authority Investigating Officers Group (LAIOG) published guidance on estimating potential loss to fraud in specific areas of local authority activity. Councils can utilise this guidance to estimate their own local losses (Ref. 17).

**108** Appendix 3 contains case studies that illustrate how councils can use legislation, notably but not solely the Proceeds of Crime Act 2002 (POCA), to recover money from fraudsters.



**109** POCA offers one means of recovering fraud losses through criminal law. Around two in five (43 per cent) of councils employ, or have access to, specialist POCA financial investigators to recover money from fraudsters through the courts (Figure 10).

Figure 10: **Proportion of councils in 2013/14 with access to POCA financial investigators, by council type**



Source: *Audit Commission (2014)*

**110** The proportion of councils in each group with access to financial investigators varies widely. All but two London boroughs use them and most employ their own. In contrast, just over a quarter (28 per cent) of district councils used a financial investigator.

**111** Financial investigators have typically focused on trading standard offences and benefit fraud, but they also enable councils to use POCA to recover funds lost to other frauds.

**112** For example, in 2014, the financial investigator at the London Borough of Lewisham<sup>i</sup> used a POCA confiscation hearing to establish the link between social housing fraud and additional costs the Council had incurred in housing homeless people. We had previously identified this link in *PPP* reports. The court agreed and set a precedent by awarding Lewisham £10,000 per fraudulently sub-let property in this case.

<sup>i</sup> This case was undertaken by the financial investigator on behalf of Lewisham Homes, the Arm's Length Management Organisation (ALMO) that manages the social housing stock for the council.

**113** The court's judgement creates case law that will help social housing providers to punish offenders, recover funds and, equally importantly, deter others from committing such frauds in the future.

**114** Local authorities should give greater consideration as to how best to use POCA financial investigators, especially in cases where councils incur substantial financial loss.

## **CIPFA Code of Practice on Managing the Risk of Fraud and Corruption**

**115** The six key components of effective stewardship of public funds highlighted in this chapter are incorporated within the newly published CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (Ref. 18). The Code will be supported by a self-assessment framework. CIPFA also intend to publish good practice guidance. We encourage all public bodies, including local authorities, to assess themselves against this Code.

## Chapter 5: Building on *PPP*'s legacy

***The Commission's PPP reports have made an important contribution to the fight against public sector fraud. The CIPFA Counter Fraud Centre is well placed to continue this work, and intends to publish future annual PPP reports on the extent of detected fraud in local government.***

**116** Throughout its existence, the Commission has played an active part in helping public bodies tackle fraud effectively. For example, early *PPP* reports identified low levels of fraud detection in the NHS, which led in part to the creation of the NHS Counter-Fraud Service in 1998 (now NHS Protect). Our research on the scale of tenancy fraud and council tax single person discount fraud has been widely used to support improvements in the response to such fraud.

**117** *PPP* reports use the Commission's statutory powers to collect and publish data on local counter-fraud detection. They have changed the way local government bodies and other organisations think about and approach fighting fraud, and achieved a number of important outcomes.

### ***PPP reports raise awareness of the importance of fighting fraud***

**118** When the Commission resumed *PPP* in 2009, there was little research available on the nature and extent of most types of non-benefit fraud affecting local government bodies. We developed robust estimates, now widely used by national and local government, of the scale of both tenancy fraud and council tax single person discount fraud.

**119** Many organisations did not acknowledge that fraud is a problem or understand its scale and impact. *PPP* reports attracted publicity and interest, which help officers and councillors to argue for more effective resources to protect the public purse.

**120** Each *PPP* report contain a checklist for those charged with governance to help them understand and assess their risks and performance. The latest version is in Appendix 2. Councils should continue to use this checklist, which is updated annually with each new *PPP* report.

## **PPP reports promote transparency and accountability**

**121** The information in *PPP* reports, combined with individual fraud briefings (see paragraphs 126 to 129), help to create greater transparency and accountability in local public services. *PPP* reports have been widely used by audit committees.

## **PPP reports improve data about fraud**

**122** Prior to 2009, there was no sector-wide definition, or sub-categorisation, of fraud affecting local government. The annual fraud survey for *PPP* reports foster a common understanding of fraud across local government, and require local government bodies to record the numbers and values of all the frauds they detected.

## **PPP reports enable local government bodies to benchmark their performance in detecting fraud**

**123** *PPP* reports contain regional and national data on detection rates and values for all types of benefit and non-benefit frauds. This allows English councils to compare their performance against national, regional and local norms. Understanding fraud detection performance helps local government bodies to adopt a proportionate and effective approach to fighting fraud.

## **PPP reports promote good practice in fighting fraud**

**124** Each *PPP* report contains case studies that illustrate the actions local government bodies, often in partnership, take and the outcomes they achieve in fighting fraud. Every year, we work with councils to promote good practice across the sector.

**125** All these benefits were possible because the Commission could mandate councils to complete and return the annual questionnaire for the fraud and corruption survey. Going forward, unless the survey is mandated by DCLG, response rates will probably fall. This would reduce the reliability of the survey results.

## Fraud briefings

**126** In 2013, we published for the first time individually tailored fraud briefings to support external auditors' communication with those responsible for governance at each council, principally locally elected councillors on audit committees. The briefings contained comparative benchmark information on each council's detection results. External auditors could provide these briefings on request and on a confidential basis, to ensure that the information they contained was not available to fraudsters<sup>i</sup>.

**127** All 353 English local authorities were able to receive their fraud briefing, without charge, through a presentation from their external auditor in late 2013 and early 2014. Around three in five councils (62 per cent) received a briefing and presentation, but it is disappointing that many councils did not.

**128** We believe these briefings make an important contribution to improving transparency and accountability in local fraud detection performance. Some councils are reluctant to discuss fraud, or unwilling to accept it occurs, which may help to explain why not all councils opted to receive their fraud briefing.

**129** In November 2014, we will again make fraud briefings available free to all councils, via their external auditor. We encourage all local authorities to use these fraud briefings to inform their local counter-fraud priorities and strategies.

**62% of councils compared their detection levels with their peers, using our tailored fraud briefings**

## CIPFA Centre for Counter Fraud

**130** Fraud risks are constantly changing. New ways of delivering public services, in particular through digital technology, bring new threats. Local government's counter-fraud approach needs to adapt and evolve to meet these new challenges. A key requirement for local bodies is to improve their counter-fraud capability.

<sup>i</sup> In 2012, the Audit Commission cited an exemption under section 31(1)(a) of the Freedom of Information (FOI) Act (that disclosure would be likely to prejudice the prevention or detection of crime) to refuse an FOI request for council-specific annual detected fraud survey results. Our concern was that disclosure of the data could prejudice the ability to prevent or detect fraud if any particular authority's track record in this regard were to become public. The Information Commissioner's Office upheld this exemption. It is for individual organisations to seek their own advice and determine their response to any FOI requests.

**131** Auditors and fraud investigators already have many of the skills required to provide an effective counter-fraud service. Although some councils use such resources effectively, this is far from universal.

**132** From April 2015, the Audit Commission's strategic counter-fraud activities and team will transfer to CIPFA's Counter Fraud Centre. 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.

**133** With the support of the new Counter Fraud Centre, the sector can enhance investigative capability, even with fewer staff. The Centre can support measures to improve in several important areas:

- **Continuing to publish *PPP*.** The Centre intend to publish a similar *PPP* report based on an annual survey of detected fraud and corruption in English local authorities.
- **Benchmarking performance.** Benchmarking is critical to understanding how well an organisation performs. The Centre for Counter Fraud intend to continue to publish individual fraud briefings. It will also draw on CIPFA's expertise in comparing data.
- **Professional training.** The Centre will develop and offer professional accredited training for the public sector with specific bespoke focus for local government investigators.
- **Tools and other services.** The Centre will offer e-learning in anti-corruption and whistleblowing, supported by counter-fraud specialists. Other services will include professional networks, thought leadership and fraud alerts.

**134** CIPFA does not have the same breadth of powers that the Audit Commission has been able to deploy to support local government, including powers to mandate submission of information on fraud detection results. This could weaken the comparative data used in fraud briefings.

**135** We encourage all councils and other public bodies to maximise the potential benefits of participation with the CIPFA Counter Fraud Centre.

**136** The Audit Commission leaves a strong legacy in counter-fraud. CIPFA is well placed to continue this work and help local government in its fight against fraud.

## Appendix 1: Data tables of detected frauds and losses by region

Table 8: **Detected frauds and losses 2013/14 by region compared to regional spend by councils**

Region	Council spending by region as percentage of total council spending in 2012/13 <sup>i</sup>	Regional percentage of the total value of all detected frauds in 2013/14	Regional percentage of the number of all cases of detected frauds in 2013/14
(TOTAL)	(£111.7 billion)	(£188.3 million)	(104,132)
East of England	10.3	9.9	10.3
East Midlands	7.7	6.4	8.6
London	18.2	27.1	20.8
North-East	5.4	4.1	6.5
North-West	13.6	10.9	8.3
South East	15.0	14.5	15.7
South-West	9.1	9.0	9.6
West Midlands	10.8	9.8	12.5
Yorkshire and Humber	10.1	8.3	7.7

Source: Audit Commission (2014)

- <sup>i</sup> Regional spending data for 2013/14 are not yet available. However, the proportions of spending in each region do not change much from year to year. For this reason, Table 8 includes 2012/13 spend data as a benchmark against fraud losses and detected cases in 2013/14.

## Appendix 2: Checklist for councillors and others responsible for governance

I. General	Yes	No	Previous action	2014 Update
1. Do we have a zero tolerance policy towards fraud?				
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?				
3. Do we have dedicated counter-fraud staff?				
4. Do counter-fraud staff review all the work of our organisation?				
5. Does a councillor have portfolio responsibility for fighting fraud across the council?				
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?				
7. Have we received the latest Audit Commission fraud briefing presentation from our external auditor?				
8. Have we assessed our management of counter-fraud work against good practice?				
9. Do we raise awareness of fraud risks with:				
■ new staff (including agency staff);				
■ existing staff;				
■ elected members; and				
■ our contractors?				



I. General	Yes	No	Previous action	2014 Update
10. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?				
11. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?				
12. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?				
13. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?				
14. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?				
15. Do we have effective arrangements for:				
■ reporting fraud?				
■ recording fraud?				
16. Do we have effective whistle-blowing arrangements. In particular are staff:				
■ aware of our whistle-blowing arrangements?				
■ have confidence in the confidentiality of those arrangements?				
■ confident that any concerns raised will be addressed?				
17. Do we have effective fidelity insurance arrangements?				

<b>II. Fighting fraud with reduced resources</b>	<b>Yes</b>	<b>No</b>	<b>Previous action</b>	<b>2014 Update</b>
18. Are we confident that we have sufficient counter-fraud capacity and capability to detect and prevent fraud, once SFIS has been fully implemented?				
19. Did we apply for a share of the £16 million challenge funding from DCLG to support councils in tackling non-benefit frauds after the SFIS is in place?				
20. If successful, are we using the money effectively?				
<b>III. Current risks and issues</b>	<b>Yes</b>	<b>No</b>	<b>Previous action</b>	<b>2014 Update</b>
<b>Housing tenancy</b>				
21. Do we take proper action to ensure that we only allocate social housing to those who are eligible?				
22. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?				
<b>Procurement</b>				
23. Are we satisfied our procurement controls are working as intended?				
24. Have we reviewed our contract letting procedures in line with best practice?				
<b>Recruitment</b>				
25. Are we satisfied our recruitment procedures				
<ul style="list-style-type: none"> <li>■ prevent us employing people working under false identities;</li> </ul>				
<ul style="list-style-type: none"> <li>■ confirm employment references effectively;</li> </ul>				
<ul style="list-style-type: none"> <li>■ ensure applicants are eligible to work in the UK; and</li> </ul>				
<ul style="list-style-type: none"> <li>■ require agencies supplying us with staff to undertake the checks that we require?</li> </ul>				

III. Current risks and issues (continued)	Yes	No	Previous action	2014 Update
<b>Personal budgets</b>				
26. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?				
27. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?				
<b>Council tax discount</b>				
28. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?				
<b>Housing benefit</b>				
29. When we tackle housing benefit fraud do we make full use of:				
■ National Fraud Initiative;				
■ Department for Work and Pensions Housing Benefit matching service;				
■ internal data matching; and				
■ private sector data matching?				
IV. Other fraud risks	Yes	No	Previous action	2014 Update
30. Do we have appropriate and proportionate defences against the following fraud risks:				
■ business rates;				
■ Right to Buy				
■ council tax reduction;				
■ schools; and				
■ grants?				



## Appendix 3: Case studies: targeting fraudsters, financial recovery (in particular use of POCA)

### Case study 4

#### **Recruitment payroll fraud - pension pot recovered (total value £414,415)**

- In July 2012, a council successfully prosecuted the Head of their Youth Offending team and several co-conspirators for payroll fraud. In collusion with employees at a recruitment agency, the employee authorised payments for several non-existent temporary agency staff. The fraud was first brought to the attention of the council by a whistleblower.
- The employee was found guilty of conspiracy to defraud the council and sentenced to five years and six months in prison. The co-conspirators were also found guilty and sentenced to four years, two years, and 18 months respectively.
- In 2014, the council was awarded a total of £414,415 in financial restitution from the fraudsters, in part through successful POCA judgements. This included £286,415 recovered from the fraudsters' pension under provisions within the Local Government Pension Scheme.

*Source: Audit Commission (2014)*

### **Prevention of Social Housing Fraud Act - unlawful profit order of £31,000**

- In early 2014, a predominantly London-based housing association was one of the first social housing providers to gain an Unlawful Profit Order under the Prevention of Social Housing Fraud Act. This allows social landlords to seek a money judgement against their tenant where illegal sub-letting has occurred.
- On a routine visit, a housing officer became suspicious about illegal sub-letting after seeing an unfamiliar person in a property. The officer discovered that the official tenant had lived and worked in Spain for at least the last two and a half years.
- The court ordered the tenant to pay the housing association £31,000, plus costs. The property was recovered and immediately re-let.

*Source: Audit Commission (2014)*

### Procurement fraud and POCA

- In 2014, a council successfully obtained a confiscation order under the Proceeds of Crime Act for £75,000. This related to the amount an employee had been illegally paid to provide confidential contract information.
- The employee's responsibilities included awarding council contracts for ICT equipment. In this role, the employee introduced two new suppliers to the council's approved tender list, subsequently advising them of tender submissions by competing companies. This enabled the two companies concerned to underbid competitive rivals to secure the contracts.
- The fraud was identified as a result of information provided by an anonymous informant.
- The employee was dismissed, subsequently found guilty under the Fraud Act and sentenced to two years imprisonment.

*Source: Audit Commission (2014)*

### **Benefit fraud (£43,000), POCA award of nearly £1.2 million**

- Over a four-year period a husband and wife made false statements as to their relationship and stole somebody else's identity (to create a non-existent landlord), to fraudulently claim housing benefit worth £43,000 from a council.
- The money claimed was used to finance an extravagant lifestyle, including purchases of two sports cars, expensive watches and nearly £100,000 of musical equipment. Subsequent enquiries by the council's financial investigator established that the husband owned a property abroad worth in excess of £1 million, had further land holdings and several businesses in the UK and abroad, including two money transfer companies. He also had several business and bank accounts.
- The fraudsters pleaded guilty to 19 Fraud Act, Theft Act, perjury and immigration offences. The fraudsters were sentenced to 30 months in prison and 12 months' suspended sentence respectively.
- Using the findings of the financial investigator's enquiries into the financial history of the fraudsters, a subsequent POCA hearing awarded £1,197,000 in a confiscation order, to be paid by the husband. The council is due £497,000 of this award.
- The fraudster husband subsequently paid £11,849 of the amount awarded. In late 2013, he left the UK and is now resident abroad. An arrest warrant has been issued.

*Source: Audit Commission (2014)*



### Recovery of 23 council houses from fraudsters

- In 2011, a council's fraud team uncovered one of the country's biggest ever tenancy fraud cases. Over a three year period, a council employee dealing with homeless people had operated a scheme to process bogus housing applications to fraudulently obtain council homes. Properties were subsequently allocated to the fraudster's family, close associates and later those willing to pay. The fraudster used fake identities, false personal data and fraudulently adjusted housing application forms to make the co-defendants "high priority" for housing.
- The fraud was first identified through National Fraud Initiative data 'Operation Amberhill' matches. Subsequent investigations found a pattern of false documentation being used to obtain social housing. Enquiries with the UK Borders Agency and HMRC established that seven of the properties were allocated to people not legally allowed to be in the UK.
- Council investigators found a pattern where significant one-off payments would be made to the fraudster's bank account. A few days later a property would be allocated to the individual making the payment.
- In total, 23 properties were fraudulently allocated, most of which have already been recovered by the council.
- The fraudster pleaded guilty to transferring criminal property and in January 2014 he was sentenced to four years in prison. The co-defendants, who included the mother and a former wife of the culprit, received suspended sentences ranging from six to eight months, and other penalties including curfews and community service.

*Source: Audit Commission (2014)*

### **Benefit fraudster with over 30 bank accounts – POCA confiscation order of £150,000**

- In 2011, a council initially identified through data matching that a benefit claimant had two undeclared bank accounts. Further enquiries established the claimant had over 30 such undeclared bank accounts in operation over a ten year period. During that time the claimant had received over £43,000 in benefits. A restraint order was placed on these bank accounts under the Proceeds of Crime Act, to prevent them being used.
- The individual was subsequently found guilty of two counts of benefit fraud under the Social Security Administration Act and received a six month custodial sentence.
- In 2014, a POCA confiscation order of £150,000 was made against the fraudster, of which over £43,000 related to the council for the fraudulent housing benefit payments. These monies have now been paid back by the fraudster.

Source: Audit Commission (2014)

### Right to Buy fraud and benefit fraud

- In 2010, a couple applied to purchase their council home under Right to Buy for £185,000, with a discount of £38,000. The purchase was not consistent with their financial circumstances, as they were long term benefit claimants on low income. As part of the council's anti-money laundering policy, enquiries were then made to establish how the property purchase would be financed.
- Enquiries revealed the couple had savings in excess of £30,000, which had not been declared in the course of claiming benefits. The mortgage to fund the purchase was to be £147,000. To obtain the mortgage, one defendant inflated his income and a completely false income was declared for the other, who had not worked for over 15 years.
- In March 2012, the defendants pleaded guilty to benefit fraud offences and money laundering totalling over £10,000. They received a 12 month Community Order, 150 hours unpaid work, an evening curfew and electronic tagging.
- At a subsequent confiscation hearing, the council were awarded over £40,000 in relation to both the Right to Buy and benefit frauds, which has been repaid in full.

*Source: Audit Commission (2014)*

### Housing officer fraudulently sub-letting council house

- In 2010, a council housing officer created false documents, forged signatures and copied confidential council-held information to create the false impression of a voluntary tenancy exchange for two council homes. Instead, the housing officer used the subsequent control over one property (that had supposedly been transferred to a new tenant), to fraudulently sub-let that property for £700 per month.
- The fraud came to the attention of the local authority as a result of an unrelated enquiry by the tenant of the fraudster to the council.
- The original tenant had returned the keys of the property to the council in 2010 and was now living abroad. He had no knowledge of the tenancy exchange, and his signature had been falsified on transfer documents.
- The housing officer was dismissed for gross misconduct, pleaded guilty to two offences of fraud by abuse of position and making and supplying articles for use in fraud. The fraudster was sentenced to two years and ten months' imprisonment.
- In 2014, a POCA confiscation hearing found the fraudster had obtained a lifestyle benefit of over £88,000. As a result, the council was awarded £16,631, representing half of the equity available on the fraudster's own property, which he jointly owned with his wife.

*Source: Audit Commission (2014)*

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If you wish to write to us, please send all correspondence to:

**Audit Commission**  
1st Floor, Fry Building  
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**Housing Benefit Counter Fraud Statistics****2013/ 2014**

No of Referrals received	494
No of Referrals opened for fraud investigation	270

**Sanctions****Formal**

Caution	3
Administrative Penalty	0
Successful Prosecution	12

**Informal**

Local Written Caution	10
Compliance Letter	n/a

Overpaid benefits identified and being recovered from the claimants:

Housing Benefit	£58,491.69
Council Tax Benefit	£29,908.44
Total	£88,400.13

**2014/15 to date**

No of Referrals received	329
No of Referrals opened for fraud investigation	176

**Sanctions****Formal**

Caution	8
Administrative Penalty	1
Successful Prosecution	7

**Informal**

Local Written Caution	4
Compliance Letter	n/a

Overpaid benefits identified and being recovered from the claimants:

Housing Benefit	£63,737.98
Council Tax Benefit	£4379.62
Total	£68,117.60



## COUNTER FRAUD SELF ASSESSMENT

## Appendix D

		RESPONSE	WHAT SHOULD WE DO	RESPONSIBILITY	DEADLINE
	<b>General</b>				
1	Do we have a zero tolerance approach to Fraud?	Yes			
2	Do we have the right approach, and effective counter fraud strategies, policies and plans? Have we aligned our strategy to Fighting Fraud Locally?	Appropriate strategies and plans are in place although they now require review in light of the new guidance issued by Cipfa (see report paragraph 2.1).	Review overall counter fraud arrangements using the new Cipfa Code of Practice on Managing the Risk of Fraud and Corruption.	Review by internal audit in 2015/16  Recommendations to be made to the Executive Director (s151)	31/12/15  Update to Audit and Governance Committee in next annual report
3	Do we have dedicated Counter Fraud Staff?	Yes, within the Enforcement Team and through arrangements with Veritau if necessary.			
4	Do counter fraud staff review all the work of the organisation?	All service areas are within the scope of work of the Enforcement Team or internal audit.	The review of counter fraud arrangements (see 2 above) will assess the arrangements for prioritising counter fraud activity.		

		<b>RESPONSE</b>	<b>WHAT SHOULD WE DO</b>	<b>RESPONSIBILITY</b>	<b>DEADLINE</b>
5	Does a councillor have portfolio responsibility for fighting fraud across the council?	The Audit and Governance Committee oversee counter fraud arrangements across the Council.			
6	Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	Risks of fraud and corruption are contained within the Council's corporate risk register and are reviewed quarterly by senior management and reported twice yearly to the Audit and Governance Committee. The Audit and Governance Committee also receive an annual report specifically on counter fraud activity.			
7	Have we received the latest Audit Commission fraud briefing presentation from our external auditor?	Yes a joint Mazars/Veritau presentation was made in June 2014.			
8	Have we assessed our management of counter fraud work against good practice?	Yes – annually in this report.			

		<b>RESPONSE</b>	<b>WHAT SHOULD WE DO</b>	<b>RESPONSIBILITY</b>	<b>DEADLINE</b>
9	Do we raise awareness of fraud risks with new staff, existing staff, elected members, and our contractors?	Fraud awareness training is provided for councillors and employees, although not on a routine basis.	Review counter fraud training and induction processes for employees and councillors.	Internal Audit Manager	30/09/15
10	Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	The Council is involved in a number of regional and national networks. Relevant information is disseminated internally by e-mail, periodic bulletins and formal reports, as appropriate.			
11	Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	Officers work with other councils, the police and other agencies as required to progress individual cases. Recently, the Council has entered into a new regional counter fraud partnership with a number of local authorities. One of the aims of the partnership is to develop the use of shared information to tackle fraud.	Monitor the effectiveness of the new counter fraud partnership.	Executive Director (s151)	Ongoing.  Update to Audit and Governance Committee in next annual report

		<b>RESPONSE</b>	<b>WHAT SHOULD WE DO</b>	<b>RESPONSIBILITY</b>	<b>DEADLINE</b>
12	Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	Issues with internal controls are identified through Internal Audit work and through management arrangements. In the case of Internal Audit reports, timescales for action are agreed with management and followed up. Where issues have been identified by management, action plans are agreed and monitored by appropriate management teams (SMT/CMT/ASD/BMG).			
13	Do we maximise the benefit of our participation in the Audit Commission's National Fraud Initiative and receive reports on our outcomes?	The Enforcement Team review and report on NFI matches to the Audit Commission. More could be done to report activity internally within the Council.	Include further detail of NFI work and outcomes as part of the annual report on counter fraud activity to the Audit and Governance Committee.	Enforcement Team Manager	2015/16 counter fraud report to Audit and Governance Committee
14	Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	A counter money laundering policy and procedure is in place and training has been provided to relevant employees; refresher training is now due.	Provide refresher training on money laundering issues, and how to report concerns.	Solicitor to the Council	30/09/15

		<b>RESPONSE</b>	<b>WHAT SHOULD WE DO</b>	<b>RESPONSIBILITY</b>	<b>DEADLINE</b>
15	Do we have effective arrangements for reporting and recording fraud?	<p>Arrangements for reporting fraud internally are set out in the Constitution. However, actual levels of reported fraud are low (non in the last 12 months). It is not clear whether this reflects actual low levels of fraud, or is because the reporting arrangements are not effective.</p> <p>Procedures for capturing fraud referrals from the public are in place. For example the Benefit Fraud Hotline and the Council website.</p>	Review internal fraud reporting and recording arrangements.	<p>Review by internal audit in 2015/16.</p> <p>Recommendations to be made to the Executive Director (s151).</p>	31/12/15
16	Do we have effective whistle-blowing arrangements?	The policy needs to be updated to meet the latest guidance	Update the policy and take action to raise awareness of the policy within the Council.	Internal Audit Manager	30/06/15
17	Do we have effective fidelity insurance arrangements?	Yes – Fidelity guarantee insurance is in place with levels of cover based on employee role.			

		RESPONSE	WHAT SHOULD WE DO	RESPONSIBILITY	DEADLINE
	<b>Fighting Fraud with Reduced Resources</b>				
18	Are we confident that we have sufficient counter-fraud capacity and capability to detect and prevent fraud, once SFIS has been fully implemented?	The Council will continue to have access to specialist counter fraud resources through its internal audit provider. The level of resource required will be reviewed on an ongoing basis as part of audit planning arrangements.			
19	Did we apply for a share of the £16 million challenge funding from DCLG to support councils in tackling non-benefit fraud after SFIS is in place?	Yes, the Council successfully submitted a bid for funding in partnership with Veritau and other local authorities in the region (see 11 above).			
20	If successful, are we using the money effectively?	The announcement on funding has recently been made and detailed plans are currently being developed.			

		RESPONSE	WHAT SHOULD WE DO	RESPONSIBILITY	DEADLINE
	<b>Current Risks and Issues</b>				
	Housing Tenancy				
21	Do we take proper action to ensure that we only allocate social housing to those who are eligible?	Yes – checks are made into housing applicants by the Council.			
22	Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	Yes – Any problems are identified and addressed through estate management activity and the work of the Community Officer Team.			
	Procurement				
23	Are we satisfied our procurement controls are working as intended?	Procurement controls are reviewed on a regular basis through internal audit work. Areas of non-compliance are reported to responsible managers for action.			

		<b>RESPONSE</b>	<b>WHAT SHOULD WE DO</b>	<b>RESPONSIBILITY</b>	<b>DEADLINE</b>
24	Have we reviewed our contract letting procedures in line with best practice?	The procedures are reviewed on an ongoing basis during the course of internal audit procurement work. Any issues with the procedures will be reported to management for action as required. There are no recent issues to report.			
	<b>Recruitment</b>				
25	Are we satisfied our recruitment procedures are effective in preventing fraud? (e.g. false identities, confirming references, ensuring eligibility to work, requiring agencies to check staff)	Arrangements for checking identities and references are in place however this area has not been reviewed by internal audit recently.	Undertake an audit of recruitment controls in 2015/16.	Internal Audit Manager	31/03/16
	<b>Personal Budgets</b>				
26	Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?	N/A			



		RESPONSE	WHAT SHOULD WE DO	RESPONSIBILITY	DEADLINE
27	Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	N/A			
	<b>Council Tax Discount</b>				
28	Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	SDC participates in a regular data matching exercise with other councils in the area to identify falsely claimed Single Person Discounts etc. A full review of Single Person Discounts has been undertaken in 2014/15			
	<b>Housing benefit</b>				
29	When we tackle housing benefit fraud do we make full use of National Fraud Initiative (NFI), Housing Benefit Matching Service (HBMS), internal data matching and private sector data matching?	The Council uses the NFI and HBMS to identify potentially potential benefit fraud.			

		RESPONSE	WHAT SHOULD WE DO	RESPONSIBILITY	DEADLINE
	<b>Other Fraud risks</b>				
30	<p>Do we have appropriate and proportionate defences against the following fraud risks:</p> <ul style="list-style-type: none"> <li>■ business rates;</li> <li>■ Right to Buy</li> <li>■ council tax reduction;</li> <li>■ schools; and</li> <li>■ grants?</li> </ul>	<p>Business rates will be looked at as part of the regional counter fraud partnership (see 11).</p> <p>The Right to Buy process was reviewed by internal audit last year and no significant concerns were identified.</p> <p>Council Tax Reduction is looked at by the Council's Enforcement Team.</p>			

**KEY**

**DCLG – Department for Communities and Local Government**

**IA – Internal Audit**

**ET – Enforcement Team**

**Public Session**

**Report Reference Number: A/14/18**

**Agenda Item No: 8**

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**To: Audit and Governance Committee**  
**Date: 14 January 2015**  
**Author: Phil Jeffrey; Audit Manager; Veritau**  
**Lead Officer: Karen Iveson; Executive Director (s151 Officer)**

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**Title: Internal Audit Progress Report 2014/15**

**Summary:**

The purpose of the report is to provide an update on progress made in delivering the internal audit workplan for 2014/15.

**Recommendations:**

**It is recommended that the attached report be approved.**

**Reasons for recommendation**

It is recommended that the report is considered by the Audit Committee as it summarises the audit work undertaken during the year to date.

**1. Introduction and background**

- 1.1. The provision of Internal Audit is a statutory requirement (Accounts & Audit Regulations).
- 1.2. The Audit Committee approved the internal audit plan for 2014/15 at its meeting held on the 16 April 2014. The purpose of the report is to inform Members of the progress made to date in delivering the 2014/15 Internal Audit Plan and any developments likely to have an impact on the Plan throughout the remainder of the financial year.

**2. The Report**

- 2.1. Within the report there is a summary of progress made against the plan.

- 2.2 Veritau carries out its work in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 2.3 There is no direct linkage to any of the Council's Priorities, as internal audit is a support service, which provides internal control and activity assurance to Directors on the operation of their services, and specifically to the Council's S151 Officer on financial systems.

### **3. Legal/Financial Controls and other Policy matters**

#### 3.1. Legal Issues

- 3.1.1 There are no legal issues.

#### 3.2. Financial Issues

- 3.2.1 There are no financial issues.

### **4. Conclusion**

- 4.1 To date, three 2014/15 audits have been finalised to draft report stage and a further fourteen have commenced planning or fieldwork is in progress. Four reports have been finalised since the last report to this committee. It is anticipated that the 93% target will be exceeded by the end of April 2015 (the cut off point for 2014/15 audits).

### **5. Background Documents**

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Veritau  
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**Appendices: - Appendix A – Internal Audit Progress Report**



**Selby District Council**

**Internal Audit Progress Report 2014-15**

**Audit Manager:** Phil Jeffrey  
**Deputy Head of Internal Audit:** Richard Smith  
**Head of Internal Audit:** Max Thomas  
**Date:** 14<sup>th</sup> January 2015

## Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS). The Head of Internal Audit is required to regularly report progress in the delivery of the internal audit plan to the Audit Committee and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members approved the Annual Internal Audit Plan 2014/15 at their meeting on the 16 April 2014. The total number of planned audit days for 2014/15 is 355. The performance target for Veritau is to deliver 93% of the agreed Audit Plan by the end of the year. This report summarises the progress made in delivering the agreed plan.

## Internal Audit Work Carried Out 2014/15

- 3 A summary of the audit work completed in the year to date is attached at **Appendix A**. This is the first progress report to be received by the committee during 2014/15.
  - 3.1 Veritau officers are involved in a number of other areas relevant to corporate matters:
    - **Support to the Audit Committee;** this is mainly on going through our support and advice to Members. We assist by facilitating the attendance at Committee of managers to respond directly to Members' questions and concerns over the audit reports and the actions that managers are taking to implement agreed recommendations.
    - **Contractor Assessment;** this work involves supporting the assurance process by using financial reports obtained from Dunn & Bradstreet (Credit Rating Agency) in order to confirm the financial robustness of potential contractors.
    - **Risk Management;** Veritau facilitate the Council's risk management process and advise Access Selby on their processes.
    - **Systems Development;** Internal Audit attend development group meetings in order to ensure that where there are proposed changes and new ways of delivering services, that the control environment is not overlooked which could lead to the Council being exposed.
    - **Investigations;** Special investigations into specific sensitive issues.
  - 3.2 As with previous audit reports an overall opinion will be given for each of the specific systems under review.
  - 3.3 The opinions used by Veritau are provided below:

<b>High Assurance</b>	Overall, very good management of risk. An effective control environment appears to be in operation.
<b>Substantial Assurance</b>	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
<b>Reasonable Assurance</b>	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.

**Limited Assurance**

Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.

**No Assurance**

Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

3.4 The following priorities are applied to individual actions agreed with management:

**Priority 1 (P1)** – A fundamental system weakness, which represents unacceptable risk to the system objectives and requires urgent attention by management.

**Priority 2 (P2)** – A significant system weakness, whose impact or frequency presents risk to the system objectives, which needs to be addressed by management.

**Priority 3 (P3)** – The system objectives are not exposed to significant risk, but the issue merits attention by management.

3.5 It is important that agreed actions are formally followed-up to ensure that they have been implemented. Agreed actions are recorded within Covalent therefore assurance should be gained through the performance management framework, with appropriate testing carried out.

3.6 A total of 23 agreed actions from 2013/14 audits have been followed up with the responsible officers. 21 had been satisfactorily implemented. In a further 2 cases, the actions had not been implemented by the target date but a revised date was agreed. This is done where the delay in addressing an issue will not lead to unacceptable exposure to risk and where, for example, the delays are unavoidable (e.g. due to unexpected difficulties or where actions are dependent on new systems being implemented). These actions will be followed up after the revised target date. The remaining 11 actions agreed in 2013/14 audits have not yet been followed up either because the target dates have not yet passed or because follow up work is still in progress. A summary of this follow up work is included below.

3.7

Action status	Total No.	Action Priority		
		1	2	3
Actions now implemented	21	1	13	7
Revised date agreed	2	0	2	0
Follow up in progress	1	0	0	1
Not yet followed up	10	0	5	5
<b>Total agreed actions</b>	<b>34</b>	<b>1</b>	<b>20</b>	<b>13</b>

3.8 Currently, three 2014/15 audits have been finalised to draft report stage and a further fourteen have commenced planning or fieldwork is in progress. Four reports have been finalised since the last report to this committee but a summary of the status of the current audit plan is included in Appendix A. It is anticipated that the 93% target will be exceeded by the end of April 2015 (the cut off point for 2014/15 audits).

## Appendix A

### Table of 2014/15 audit assignments status

Audit	Status	Audit Committee
<b>Corporate Risk Register/Access Selby RR</b>		
Savings Delivery	Not Started	
Partnerships	Planning underway	
Performance Management and Data Quality	In progress	
Government Legislation	<b>High Assurance</b>	January 2015
<b>Fundamental/Material Systems</b>		
Housing Rents	<b>Substantial Assurance</b>	January 2015
Council Tax/NNDR	Not Started	
Sundry Debtors	In progress	
Benefits	Not Started	
Council House Repairs	In progress	
Creditors	In progress	
Income/Receipting Systems	Not Started	
Payroll	Draft report issued	
General Ledger (budgetary control & reconciliations)	Planning underway	
Capital Accounting/Asset Management	In progress	
<b>Regularity Audits</b>		
Civil Contingencies Act/Business Continuity	<b>Substantial Assurance</b>	January 2015
Safeguarding Children	Draft report issued	
Taxi Licensing	<b>Reasonable Assurance</b>	January 2015
<b>Technical/Project Audits</b>		
ICT	Not Started	
Programme for Growth	Planning underway	
Leisure Centre Rebuild/Village	Planning underway	
Contract Audit/Procurement	In progress	
Housing Trust	In progress	
Business Transformation	Planning underway	
Better Together	Planning underway	
Information Governance Support	Support provided - no report issued	
<b>Contingency</b>		
- Car Park Income	Draft report issued	
<b>Follow Ups:</b>	In progress	



Summary of Key Issues from audits completed to 23 December 2014; previously not reported

Audit	Opinion	Area Reviewed	Date Issued	Comments	Number of Agreed Actions	
					Total	Priority 1
Government Legislation	High Assurance	This audit focused upon a review of the implementation of relevant legislation including the horizon scanning process.	18 December 2014	<p><b>Strengths</b> Issues are identified and reported to lead officers; assessed for their likely impact on the council and action is taken to mitigate the impact of these changes. Access Selby Directors and Board members receive appropriate detail about issues and how they are being managed.</p> <p><b>Key Weaknesses</b> No key weaknesses.</p>	0	0
Housing Rents	Substantial Assurance	This audit focused upon calculation and billing of rents, along with the collection of income.	21 November 2014	<p><b>Strengths</b> The council's procedures for setting, accounting for and recovering rents were generally found to be working well .</p> <p><b>Key Weaknesses</b> The rent income was not being recorded on the main accounting system promptly and was not broken down into various rent elements. It was also noted that too many users had access to perform critical tasks such as changing rent levels or making adjustments to rent accounts.</p>	4	0

Audit	Opinion	Area Reviewed	Date Issued	Comments	Number of Agreed Actions	
					Total	Priority 1
Civil Contingencies Act (Business Continuity)	Substantial Assurance	This audit focused upon the council's business continuity plans, including training and communication to staff.	22 October 2014	<p><b>Strengths</b> The council's arrangements for restoring services following an emergency incident occurring were generally found to be good. Standard business continuity forms for business areas had been completed correctly with few issues being noted.</p> <p><b>Key Weaknesses</b> Corporate plans did not state which critical processes needed to be restored first following an incident and test exercises had not been done on the business continuity arrangements at corporate level.</p>	5	0
Taxi Licensing	Reasonable Assurance	This audit focused upon the advice provided in relation to taxi licensing as well as enforcement activities and the responses to breaches of the licensing regime.	19 December 2014	<p><b>Strengths</b> All necessary taxi licensing information is available on the Council's website.</p> <p><b>Key Weaknesses</b> Limited proactive enforcement action is taken. Enforcement records were held, but in a variety of places and were not therefore easily accessible.</p>	6	0

# Annual Audit Letter 2013/14

Selby District Council



October 2014

Mazars LLP  
Rivergreen Centre  
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Durham  
DH1 5TS

Members  
Selby District Council  
Civic Centre  
Doncaster Road  
Selby  
YO8 9FT

10 October 2014

Dear Members

**Annual Audit Letter 2014**

We are delighted to present to you the Council's Annual Audit Letter.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2013/14 has been another challenging year for the Council and like most other authorities in the North East and across the country Selby District Council has faced difficult decisions on its spending priorities and plans for the future. We reflect on these matters in the value for money part of this letter. However, we were pleased to issue an unqualified opinion on the statement of accounts and value for money conclusion.

I would like to express my thanks for the assistance of the Council's finance team, as well as senior officers and the Audit Committee, during the audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300 or [cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk).

Yours faithfully

Cameron Waddell  
Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales

# 01 Overall messages

## Purpose of this letter

Our Annual Audit Letter provides a summary of our work and findings for the 2013/14 audit period for Member and other interested parties.

In addition to the summary outlined in this letter, our Audit Completion Report that we presented to the Council's Audit Committee on 24 September 2014 provides a more detailed analysis of the work we have undertaken as the Council's external auditor in 2013/14.

## Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's statement of accounts on 25 September 2014.

The production of the statement of accounts is a significant technical challenge involving a great deal of work by the Council's officers. We appreciate the cooperation of management and the patience, courtesy and assistance shown to us in the completion of our work. The working papers supporting the statement of accounts were of good quality and officers were responsive in following up the queries we raised.

Our main findings from the audit were:

- There were a number of agreed amendments to the financial statements;
- There were a small number of unadjusted misstatements where errors were not material;
- We identified the need to strengthen the process for capital accruals, and improve the frequency and scope of systems reconciliations, and appropriate action has been agreed with officers; and
- The overall quality of the final statement of accounts was good.

## Our Value for Money conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the Commission's guidance for 2013/14. Our audit report included a conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Our work in this area focussed on the two criteria specified by the Audit Commission, and considered whether the Council had proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

## Financial Resilience

The Council has managed its financial position well. Budget setting is robust and close monitoring ensured delivery of spending within budget. The outturn report for 2013/14 shows that the Council underspent against budget by £0.8 million for the General Fund and £0.2 million for the Housing Revenue Account. There was some slippage in the capital programme and this is being carried forward into 2014/15.

The latest VFM profiles, produced by the Audit Commission, show the General Fund Balance was close to the average for similar authorities, and that earmarked reserves are relatively high. These earmarked reserves are set aside for specific plans and projects and will help the Council manage the financial challenges it faces over the next few years.

The Council is financially resilient. The Medium Term Financial Strategy sets out how the Council proposes to deal with the difficult economic climate and the cuts in funding. The Council has considered the impact of the retention of business rates and localisation of council tax support, and is monitoring these areas closely.

### **Securing economy, efficiency and effectiveness**

In recent years, the Council has made significant changes to secure its future viability. It has reorganised into a democratic core, Access Selby and Communities Selby. The core commissions services and provides democratic accountability, Access Selby is a service delivery arm but with an ambition to improve service delivery for residents and develop more commercial expertise. Communities Selby is about being closer to the local community and maximising the return for residents through partnership working with the voluntary sector and others.

The Council have made good progress in the innovative collaborative arrangement with North Yorkshire County Council. The new joint post of Chief Executive for Selby District Council and Assistant Chief Executive for North Yorkshire County Council has been filled by Mary Weastell. The joint post has been successful in aiding the implementation of joint working projects. For example, the registry office relocating to Selby District Council Civic Centre, new shared telephony system and other projects bringing efficiencies and savings for both Local Authorities.

The Selby District Housing Trust has been set up and the building of affordable housing is underway.

The re-building of Abbey Leisure Centre is underway and on track to be completed by early 2015. The Council are taking advantage of the development and are looking to bring additional leisure facilities to the district.

### **Whole of Government Accounts (WGA)**

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of the Council's WGA consolidation pack with the audited statement of accounts. As the Council's activity is below the threshold set by the NAO for a full review of WGA, the procedures we were required to carry out were limited to consideration of Property, Plant and Equipment and pensions entries. We reported to NAO on 25 September 2014, highlighting one non material difference between the WGA consolidation pack and the audited statement of accounts.

### **Our other responsibilities**

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions or objections in relation to the Council's 2013/14 accounts from local electors, nor did we exercise our wider reporting powers.

## 02 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit Committee on 16 April 2014, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2013/14 are summarised below.

Element of work	As previously reported	Final Fee
Code audit work <sup>1</sup>	£58,710	£59,180
Certification work <sup>2</sup>	£15,796	£20,796
Non-audit work	£0	£0
<b>Total</b>	<b>£74,506</b>	<b>£79,976</b>

<sup>1</sup> There has been an increase in fees for Code audit work since we reported to you in our Audit Strategy Memorandum in April 2014. This increase in fee has arisen because the Audit Commission no longer makes certification arrangements for the NNDR 3 return and, as a result we have had to undertake additional audit testing to obtain suitable assurance over relevant entries in the Council's accounts. This assurance would have previously been obtained from work to certify the NNDR 3 return. The Audit Commission advised all audit suppliers of the expected additional fees arising from this additional work and I can confirm that the additional fee we have charged of £470 is in line with that prescribed by the Audit Commission.

<sup>2</sup> The previously reported fee is the fee reported to the Audit Committee in June 2014. This reduced from the original estimate of £17,900 reported in the Audit Strategy Memorandum, due to the removal of council tax benefits from the scope of this work. The final fee of £20,796 outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim. This is based on the estimated additional fee of £5,000 reported to the Audit Committee in June 2014, to reflect additional work required as a result of errors in the initial testing of benefits. We will confirm the final fee charged for certification work when we issue our Certification Report.

We confirm that we did not undertake any non-audit work during the year.



## 03 Future challenges

The main challenge facing the Council, along with other local authorities and the wider public sector, is the continued pressure on the public purse and the need to plan for further reductions in funding and fewer overall resources, coupled with increased demand for services.

In our comments earlier in this report, we summarised how the Council has dealt with these challenges so far, its existing financial resilience and its plans for the future, including initiatives such as working together with North Yorkshire County Council.

There are still risks with these and the other initiatives the Council is engaged in, but progress to date has been good. It is important that the Council continues to closely monitor the progress of its key projects and initiatives to ensure that the benefits envisaged are delivered for the Council and its residents.

We will focus our 2014/15 audit on the risks that these challenges present to the Council's financial statements and its ability to maintain proper arrangements for securing value for money.

We will also share with the Council relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with officers to share our knowledge of new accounting developments, and we will be on hand to discuss any issues with officers as and when they arise.

Should you require any further information on this letter or on any other aspects of our work, please contact:

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<b>Position</b>	<b>Director</b>
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# Selby District Council

## Certification of Claims and Returns Annual Report 2013/14

December 2014



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*Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies.’ Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.*

*Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.*

# 01

## Background

Selby District Council (the Council) receives more than £23m in funding from various grant-paying government departments. These departments may attach conditions and restrictions to these grants which the Council must meet otherwise funding may be withdrawn or clawed-back.

It is therefore important that the Council can demonstrate that it:

- Has put in place adequate arrangements to prepare and authorise each claim and return; and
- Can evidence that it has met the terms and conditions put in place by the grant paying body for each claim and return.

### The scope of our work

As the Council's appointed auditor, we act as an agent of the Audit Commission to certify specified claims and returns.

The Audit Commission, in consultation with the grant-paying bodies, sets out a programme of work in the form of Certification Instructions (CIs) that we must follow. It also sets an overall framework under which we carry out our certification work:

- For claims and returns below £125,000 the Audit Commission does not make certification arrangements and as such we are not required to carry out any certification work.
- For claims and returns between £125,000 and £500,000, the Audit Commission requires us to undertake limited tests to ensure that entries on the claim form agree with underlying records.
- For claims and returns over £500,000, we assess the control environment the Council has put in place for preparing the claim to decide whether we can place reliance on these arrangements. Where we can place reliance on the Council's arrangements we undertake limited testing to ensure that entries on the claim form agree with underlying records (as above). Where we cannot place reliance on the Council's control environment we carry out the full programme of testing in the Audit Commission's CI.

### Our certificate

On completion of the specified work we issue a certificate, the wording of which depends on the level of work we have performed on each claim. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter.

Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

# 02

## Findings

### The Council's control environment

There are specific arrangements for the certification of the Housing and Council Tax Benefit claim which do not require us to assess the control environment. We have to carry out detailed testing in relation to this claim.

We assessed the control environment relating to the pooling of housing capital receipts return as strong, which meant that we were required to carry out more limited Part A testing only.

### Amendments and Qualifications

The Housing Benefits Claim was amended and was subject to a qualification letter. This is discussed further in the section below.

There was a very minor amendment to the pooling of housing capital receipts return.

Appendix A to this report provides an analysis of our certification work on these claims and returns.

### Housing benefits

The Housing Benefits Claim was amended and was subject to a qualification letter.

The benefits claim was amended leading to a decrease in subsidy claimed of £6,024. This was a result of adjustments identified by officers.

Members will recall that we reported to Audit Committee in June 2014 that we had identified a higher number of errors from our sample testing than in previous years. Where errors are identified in the initial sample further extended testing is required to be undertaken. To minimise costs, the extended testing was undertaken by officers and then reviewed by the auditor. In June 2014 we estimated that an additional audit fee of something in the region of £5,000 may be required to complete the additional review work which we needed to undertake.

We sought to minimise costs, and management provided helpful assistance, which meant that we were able to limit the additional fee required to £2,500.

The detailed findings, including the extrapolation of errors identified, were reported in our qualification letter to the Department for Work and Pensions. The errors identified were basic processing errors, such as:

- Errors in calculating claimants average weekly income;
- Using incorrect start dates; and,
- Errors in misclassifying overpayments into the wrong categories.

In some of these cases, claimants were underpaid or overpaid benefit, illustrating the importance of getting these calculations right first time.

If all the errors identified were extrapolated to the whole population of cases, the Council would have been entitled to an additional £29,942 of subsidy. This illustrates that getting things right first time can also be of benefit to the Council. These errors meant that, based on extrapolations, the Council lost out on subsidy that would otherwise have been available to it.

Officers have responded appropriately to our findings, and have taken the following actions:

- All of the points highlighted have been brought to the attention of all team members;
- All Local Scheme cases were checked to ensure that they are correct going forward and measures are in place to ensure that war pensions are updated from the correct date for April 2015 entitlements;
- All Backdated claims have been checked to ensure they are correct;
- All claims attracting 13-week rent protection have been checked to ensure they are correct;
- Accuracy of claims and changes checking on a daily basis has been increased from a 5% to 10% sample with periodic checks being done on 100% of the work an assessor has done in a day;
- For bed & breakfast accommodation new procedures have been introduced to split the rent period between part and full weeks to ensure that the Local Housing Allowance (LHA) rate is correctly applied throughout;
- Refresher training has been carried out on the assessment of wages and it was emphasised that where assessors exercise their discretion and deviate from normal practise that they fully document what they have done and why; and,
- Refresher training has been provided on the classification of overpayments.

Officers agreed the content of the qualification letter.

# 03

## Certification fees

For 2013/14 the total fees charged for certification work was £18,296. This represents a small reduction on fees charged in 2012/13 (£19,650). The main reason for the reduction in fee was that fewer claims and returns required certification under the Audit Commission's arrangements this year. The reduction would have been greater if we had not needed to carry out additional work on the housing benefits claim.

A breakdown of the fees charged for each claim and return is provided in Appendix A.



# Appendix A

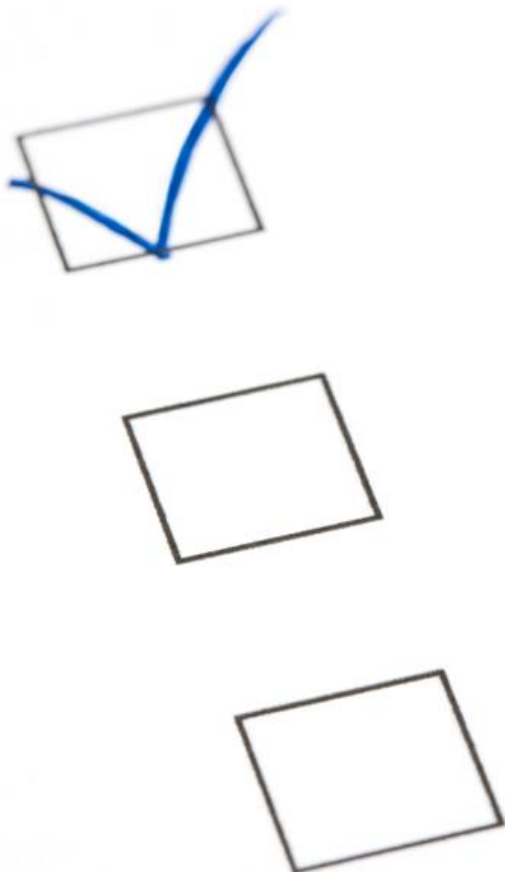
## Summary of certified claims and returns

Claim or return	Value	2012/13 fee	2013/14 fee	Reasons for significant movement	Amended	Qualified
Housing and Council Tax Benefit Scheme	£16,866,839	£16,047	£17,931	The fee set by the Audit Commission was £15,431. This increased by £2,500 to reflect additional work.	Overall subsidy payable to the Council reduced by £6,024.	Qualification letter reported errors identified from initial samples and extended testing and extrapolated impacts of the errors identified.  The overall impact of the errors is that subsidy had been under claimed by £29,942.
National non-Domestic Rates Return	n/a	£3,246	n/a	This return no longer requires audit certification.	n/a	n/a
Pooling of housing capital receipts	£742,030	£357	£365	The fee is set by the Audit Commission.	A reduction of £1,382 was made to reflect minor discrepancies that were identified in the audit.	No
<b>Total</b>	<b>£17,608,869</b>	<b>£19,650</b>	<b>£18,296</b>			

# Selby District Council

## Audit Progress Report

January 2015



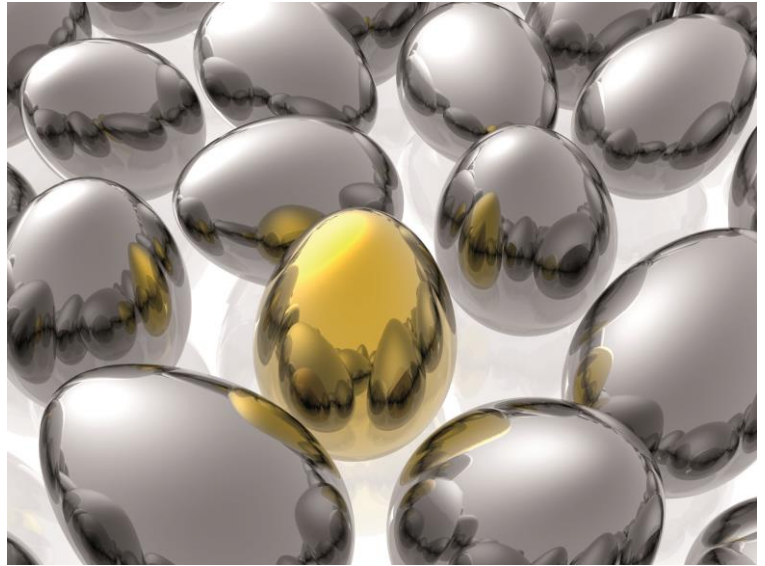
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- 02 Summary of audit progress
- 03 Emerging issues and developments
- 04 Contact details

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# 01



## Purpose of this paper

This paper updates the Audit Committee on our progress in meeting our responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

If you require any further information please contact your Engagement Lead or Senior Manager using the contact details at the end of this update.

# 02

## Summary of audit progress



### **Audit of the 2013/14 financial statements**

Following the Committee meeting on 24 September 2014, we issued an audit report including an unqualified opinion on the Council's financial statements on 25 September 2014. Our audit report included a conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

We certified completion of the 2013/14 audit in our report.

Our Annual Audit Letter for 2013/14 has been issued, and is considered separately on the agenda for this Committee meeting.

## **Certification of claims and returns**

Work on the 2013/14 Housing Benefits Subsidy Claim is complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2014.

## **Audit of the 2014/15 financial statements**

There will be a change of personnel on the audit this year.

Rochelle Tribe, Senior Manager, with wide ranging experience of local government audit, is going to replace Gavin Barker as the Engagement Manager for the audit, following an internal reorganisation in Mazars.

In addition, Chris Kneale, one of our Senior Auditors is taking over as Team Leader for the audit.

Gavin is introducing Rochelle and Chris to the audit and arranging for a smooth hand over of audit responsibilities. We have begun the early planning stages of the 2014/15 audit.

# 03

## Emerging issues and developments



The following pages outline for your attention some significant emerging issues and developments in respect of:

- New proposals to bring forward the accounts and audit timetable from 2017/18 and other proposals relating to local audit
- Role of the National Audit Office (NAO) in local audit
- Report on the National Fraud Initiative (NFI)
- Regulatory Compliance and Quality Review Programme - Annual report 2014
- Annual Regulatory Compliance and Quality Report - Mazars LLP

- 2015/16 proposed fee scales and work programme, Audit Commission
- Councils' expenditure on looked after children – VFM Briefing
- NFI information packs
- Local Authority Accounting Panel (LAAP) Bulletins
- Transitional arrangements regarding the Local Audit and Accountability Act 2014
- Protecting the Public Purse 2014, Audit Commission
- Interpreting the Accounts: A Review of Local Government Financial Ratios 2007/08 to 2012/13, Audit Commission
- Auditing the Accounts 2013/14, Quality and timeliness of local public bodies' financial reporting.



# Emerging issues and developments

Issue / development	Implications
<p><b>New proposals to bring forward the accounts and audit timetable from 2017/18 and other proposals relating to local audit</b></p> <p>Members will recall that previous Audit Progress Reports have referred to consultation on proposals to bring forward the accounts production and audit timetable.</p> <p>New proposals have now been made by DCLG, which will bring the accounts production deadline forward by one month from 30 June to 31 May from the 2017/18 financial year. The audit deadline will come forward by two months from 30 September to 31 July at the same time.</p> <p>The rationale from the consultation is set out below:</p>	<p>The changes in the accounts and audit deadline will have a significant impact on the Council's arrangements.</p> <p>More information on the latest proposals: <a href="https://www.gov.uk/government/consultations/local-audit-regulations">https://www.gov.uk/government/consultations/local-audit-regulations</a></p>
<p><b>4.6</b> In relation to the bringing forward of the timetable for Category 1 authorities; whilst Ministers acknowledge the challenge that this will involve both for the authorities affected and their auditors, the proposal is firmly in line with wider Government moves to improve local government accountability to the public. The points made in the consultation responses about the complexity and length of local authority accounts are acknowledged, and Government will be working with the Chartered Institute of Public Finance and Accountancy to support their current initiatives to simplify the accounts and make them easier for local people to understand. The introduction of a requirement for an explanatory narrative to accompany the statement of accounts is a first step in the necessary changes.</p> <p><b>4.7</b> The Government proposes to bring forward the existing dates of 30 June and 30 September to 31 May and 31 July as from the accounts for 2017-18 for accounts being signed and certified by the Responsible Financial Officer and then approved and published. This period of notice is intended to give authorities time to make the necessary changes in their processes, and auditing firms time to adjust their business models accordingly. But it is hoped that authorities will move to the new timetable as soon as they can; some indeed already comply. No change is proposed in the timetable for Category 2 authorities.</p>	

# Emerging issues and developments

Issue / development	Implications
<p><b>Role of the National Audit Office (NAO) in local audit</b></p> <p>The National Audit Office (NAO) has published a paper outlining its new role in local audit under the Local Audit and Accountability Act 2014.</p> <p>This includes:</p> <ul style="list-style-type: none"> <li>• preparing the Code of Audit Practice; and</li> <li>• Value for Money studies.</li> </ul>	<p>For information</p> <p><a href="http://www.nao.org.uk/reports/the-naos-role-in-local-audit/">http://www.nao.org.uk/reports/the-naos-role-in-local-audit/</a></p>
<p><b>Report on the National Fraud Initiative (NFI)</b></p> <p>The Audit Commission has published its National Fraud Initiative (NFI) annual report recently.</p> <p>The NFI is a data matching exercise which compares information held by and between around 1,300 organisations including councils, the police, hospitals and almost 100 private companies. This helps to identify potentially fraudulent claims, errors and overpayments, all hosted on a secure website. When there is a match, there may be something that warrants investigation. For example, when data matching shows a person listed as deceased and also in receipt of a pension, the relevant body will investigate and if appropriate, stop pension payments.</p> <p>The report is supported by case studies of successful outcomes both in the private sector and public sector.</p>	<p>Selby District Council participates in NFI.</p> <p><a href="http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/">http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/</a></p>

# Emerging issues and developments

Issue / development	Possible action
<p><b>Regulatory Compliance and Quality Review Programme - Annual report 2014</b></p> <p>The Audit Commission recently published the outcomes from its monitoring of the performance of all its audit firms. The report concludes that audit quality was maintained in the year following transfer of staff from the Commission's Audit Practice to firms, and the introduction of new firms to the regime. The Commission is satisfied that the risks of audit failure remain low; that all firms are meeting the Commission's regulatory requirements; and that all firms are continuing to produce work to an acceptable standard.</p>	<p>The results of monitoring by the Commission provides the Council and other stakeholders with assurance that high-quality audits are being delivered.</p> <p>The report can be found at <a href="http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/">http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/</a></p>
<p><b>Annual Regulatory Compliance and Quality Report - Mazars LLP</b></p> <p>This report, published in June 2014, summarises the results of monitoring work by the Audit Commission as described above, for Mazars LLP.</p> <p>The Firm was rated 'Green' overall, and the Audit Commission concluded that the Firm 'has performed well in its first year in the Commission's regime. All of the 2013/14 regulatory compliance indicators have been scored as green. In addition, audited bodies are satisfied with the performance of Mazars as their auditor'.</p>	<p>The report is available from <a href="http://www.audit-commission.gov.uk/wp-content/uploads/2012/11/Mazars-2013-14-Annual-Regulatory-Compliance-and-Quality-Report.pdf">http://www.audit-commission.gov.uk/wp-content/uploads/2012/11/Mazars-2013-14-Annual-Regulatory-Compliance-and-Quality-Report.pdf</a></p>

# Emerging issues and developments

Issue / development	Possible action
<p><b>2015/16 proposed fee scales and work programme, Audit Commission</b></p> <p>The Audit Commission is consulting on its 2015/16 proposed work programme and scales of fees. The Department for Communities and Local Government (DCLG) has asked the Audit Commission to set fees for 2015/16 before the Commission’s closure on 31 March 2015.</p> <p>The Commission is proposing to reduce scale fees by a further 25 per cent from 2015/16, based on the scale fees applicable for 2014/15. It does not plan to make changes to the overall work programme. The 25 per cent fee reduction has been achieved as a result of a recent procurement exercise to retender the work undertaken under older contracts with audit firms, and is in addition to the 40 per cent cut in fees made by the Commission in 2012.</p> <p>The consultation document also states: “The new contracts awarded in the 2014 procurement are for two years, with the potential for extension by a further three years. The contracts will finish in 2017, or in 2020 if extended. The Commission’s other audit contracts, awarded in 2012, finish at the same time as the 2014 contracts. Extending the contracts to 2020 would ‘lock in’ reduced audit fees, delivering further savings for audited bodies”.</p> <p>The Commission has also highlighted in a press release that it will be returning a further £6 million to its audited bodies in rebates. The consultation ends on 9 January 2015.</p>	<p><b>The proposed scale fee for Selby District Council is £44,708, that is, a 25 per cent reduction on the 2014/15 scale fee of £59,610.</b></p> <p><a href="http://www.audit-commission.gov.uk/audit-regime/audit-fees/201516propwpsf/">http://www.audit-commission.gov.uk/audit-regime/audit-fees/201516propwpsf/</a></p> <p>(Note that the 2014/15 initial scale fee of £58,710 is proposed to be increased by £900 for additional work required at all sites on business rates, which is where the 2014/15 scale fee of £59,610 has been derived)</p>

# Emerging issues and developments

Issue / development	Possible action
<p><b>NFI information packs</b></p> <p>The Audit Commission has distributed information packs for elected members with responsibility for finance and audit at councils. Copies were also sent to directors of finance and NFI key contacts for information. The pack brings together key facts about the NFI, the Council's NFI outcomes and comparisons to your nearest neighbours.</p>	<p>Further information on the National Fraud Initiative can be found at <a href="http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/">http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/</a></p>
<p><b>Local Authority Accounting Panel (LAAP) Bulletins</b></p> <p>CIPFA recently published:</p> <ul style="list-style-type: none"> <li>• LAAP Bulletin 99 – Local Authority Reserves and Balances</li> <li>• LAAP Bulletin 100 - Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17</li> </ul>	<p>The bulletins include some significant developments for local authority accountants and Finance departments.</p>

# Emerging issues and developments

Issue / development	Possible action
<p><b>Transitional arrangements regarding the Local Audit and Accountability Act 2014</b></p> <p>At a recent meeting of public sector audit suppliers, the following matters were among those discussed:</p> <ul style="list-style-type: none"> <li>• The Council’s 2014/15 audits will be delivered under the Audit commission Act 1998, and the 2015/16 audit will be the first under the LA&amp;A Act 2014;</li> <li>• The existing Code of Audit Practice will continue to apply in 2014/15, moving to the NAO Code (expected April 2015) for 2015/16 onwards;</li> <li>• Under the LA&amp;A Act, auditors must have ‘regard to’ the guidance issued by the NAO. This is not the same as our current contractual requirement; and</li> <li>• NAO will continue to run technical networks for NHS, local government and smaller bodies.</li> </ul>	<p>We will keep the Committee informed on the implementation of the Act in our Progress Reports and Briefings.</p>
<p><b>Protecting the Public Purse</b></p> <p>The Audit Commission’s latest report on fraud in local government revealed the highest value of fraud detected by England’s councils since the Audit Commission turned the spotlight on 25 years ago. Fraud valued at £188 million was detected in 2013/14, a ten-fold increase since 1990 and beating all records for the past 25 years.</p>	<p>The Report can be found at <a href="http://www.audit-commission.gov.uk/2014/10/highest-value-of-fraud-detected-by-councils-since-audit-commission-turned-the-spotlight-on-25-years-ago/">http://www.audit-commission.gov.uk/2014/10/highest-value-of-fraud-detected-by-councils-since-audit-commission-turned-the-spotlight-on-25-years-ago/</a></p>



# Emerging issues and developments

Issue / development	Possible action
<p><b>Interpreting the Accounts: A Review of Local Government Financial Ratios 2007/08 to 2012/13</b></p> <p>The report by the Audit Commission invites local government to help armchair auditors interpret accounts. It describes changes in the ratios for English councils during a period of considerable change for local government finance, and calls on local government to compile its own financial ratios data for comparison after the Commission closes in March 2015.</p>	<p>The Report can be found at <a href="http://www.audit-commission.gov.uk/2014/09/audit-commission-invites-local-government-to-help-armchair-auditors-interpret-the-accounts/">http://www.audit-commission.gov.uk/2014/09/audit-commission-invites-local-government-to-help-armchair-auditors-interpret-the-accounts/</a></p>
<p><b>Auditing the Accounts 2013/14, Quality and timeliness of local public bodies' financial reporting</b></p> <p>This Audit Commission report summarises the financial reporting outcomes for local authorities and other bodies within its regime. Audit opinions were issued at 99% of councils by 30 September 2014. The report names authorities that produced their accounts early and also names those where there were delays or non standard wording to the auditor's reports.</p>	<p>Selby District Council met all of the statutory deadlines and received an unqualified audit opinion on 25 September 2014.</p> <p>The report can be found at <a href="http://www.audit-commission.gov.uk/2014/12/local-government-financial-reporting-remains-strong-nevertheless-over-1000-small-bodies-have-their-accounts-qualified/">http://www.audit-commission.gov.uk/2014/12/local-government-financial-reporting-remains-strong-nevertheless-over-1000-small-bodies-have-their-accounts-qualified/</a></p>

# 04

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