

Governance, Audit, Risk Management and Standards Committee **AGENDA**

DATE: Monday 1 December 2014

TIME: 7.30 pm

VENUE: Committee Room 5,
Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chairman: Councillor Antonio Weiss

Councillors:

Ghazanfar Ali
Nitin Parekh
Primesh Patel

Barry Macleod-Cullinane (VC)
Amir Moshenson
Bharat Thakker

Reserve Members:

- | | |
|---------------------------|------------------|
| 1. Kiran Ramchandani | 1. Kanti Rabadia |
| 2. Jeff Anderson | 2. Pritesh Patel |
| 3. Kairul Kareema Marikar | 3. Chris Mote |
| 4. Ms Pamela Fitzpatrick | |

Contact: Vishal Seegoolam, Senior Democratic Services Officer
Tel: 020 8424 1883 E-mail: vishal.seegoolam@harrow.gov.uk

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

- (i) to take the place of an ordinary Member for whom they are a reserve;
- (ii) where the ordinary Member will be absent for the whole of the meeting; and
- (iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
- (iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee;
- (b) all other Members present.

3. MINUTES (Pages 1 - 4)

That the minutes of the meeting held on 17 September 2014 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order notice of them was received and there be a time limit of 15 minutes.

[The deadline for receipt of public questions is 3.00 pm, Wednesday 26th November 2014. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS

To receive references from Council and any other Committees or Panels (if any).

8. INFORMATION REPORT - TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY: MID-YEAR REVIEW 2014-15 (Pages 5 - 18)

Report of the Director of Finance and Assurance.

9. INFORMATION REPORT - ANNUAL AUDIT LETTER (Pages 19 - 32)

Report of the Director of Finance and Assurance.

10. INFORMATION REPORT - CORPORATE ANTI-FRAUD TEAM (CAFT) MID YEAR REPORT 2014-15 (Pages 33 - 112)

Report of the Director of Finance and Assurance.

11. INFORMATION REPORT - INTERNAL AUDIT MID-YEAR REPORT 2014/15 (Pages 113 - 128)

Report of the Director of Finance and Assurance.

12. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

AGENDA - PART II - NIL

*** DATA PROTECTION ACT NOTICE**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[Note: The questions and answers will not be reproduced in the minutes.]

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GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE MINUTES

17 SEPTEMBER 2014

Chairman: * Councillor Antonio Weiss

Councillors: * Ghazanfar Ali * Nitin Parekh
* Barry Macleod-Cullinane * Primesh Patel
* Amir Moshenson * Bharat Thakker

In attendance: Kanti Rabadia Minute 17 to 26
(Councillors)

* Denotes Member present

17. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

18. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 12 – Statement of Accounts 2013-14

Mr Derek Lawrence declared a non-pecuniary interest in that his wife was a member of the Local Government Pension Scheme

Councillor Barry Macleod-Cullinane declared a non-pecuniary interest in that he was a member of the Local Government Pension Scheme through London Councils. He was also a member of the Cabinet at the time when it

considered the provision of back office services including the operation of SAP. He would remain in the room whilst the matter was considered and voted upon.

Councillor Primesh Patel declared a non-pecuniary interest in that he was a governor at Bentley Wood High School. He would remain in the room whilst the matter was considered and voted upon.

Councillor Kanti Rabadia declared a non-pecuniary interest in that he had a family member who was a Member of the Council's Local Government Pension Scheme.

Councillor Antonio Weiss declared a non-pecuniary interest in that he was a governor at Harrow College. He would remain in the room whilst the matter was considered and voted upon.

19. Minutes

Members of the Committee queried why officers were not named in the meeting as having attended. Members also commented that Members who were not a Member of the Committee should also be noted in the minutes, as this supported transparency.

The Committee asked the issues to be referred to the Director of Legal and Governance Services to review this for all formal Member-level bodies.

RESOLVED: That the minutes of the meeting held on 22 July 2014, be taken as read and signed as a correct record.

20. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions were put or petitions or deputations received at this meeting.

21. References from Council and other Committees/Panels

There were none.

RESOLVED ITEMS

22. Membership of the Assessment and Hearing Review Sub-Committees

RESOLVED: That the appointment of Members to the Assessment and Hearing Review Sub-Committees be agreed as set out in the list appended to the agenda.

23. Standards Items

There were none.

24. INFORMATION REPORT - Annual Governance Statement 2013-14

The Committee received a report of the Director of Finance and Assurance which set out the Council's Annual Governance Statement (AGS) for 2013/14 and the Corporate Management Assurance Statement.

RESOLVED: That the report be noted.

25. Revision of the Contract Procedure Rules

The Committee received a report which proposed revisions to the Contract Procedure Rules.

During the discussion on this item, Members of the Committee raised a number of queries which officers responded that they would need to obtain the relevant information and respond after the meeting. Additionally some of the comments raised were useful and officers would re-word certain provisions to take the points raised into account.

A Member of the Committee commented that it would be difficult for it to approve the document prior to the amendments requested being made. The Committee agreed to delegate its decision to the Chair and Vice-Chair, once the amendments had been made. In the event of a disagreement between the Chair and Vice-Chair, the item would be re-presented to the next meeting of the Committee.

RESOLVED: That the approval of the revised Contract Procedure Rules be delegated to the Chair and Vice Chair prior to their onward progression for approval to the Constitution Review Working Group and Full Council.

26. Statement of Accounts 2013-14

The Committee received a report which set out the audited Statement of Accounts for 2013-14.

RESOLVED: That

- (1) the report of the External Auditor on matters arising from the audit of the 2013-14 accounts for the Council and the Pension Fund be noted;
- (2) the Audited Statement of Accounts for the Council and the Council's Pension Fund for the financial year 2013-14 be approved and the signing thereof by the Chair be authorised;
- (3) the Annual Governance Statement for 2013-14 be approved;
- (4) the Director of Finance and Assurance be authorised, following consultation with the Chair, to make any final amendments to the Accounts arising from the External Audit prior to the signing of the accounts by the Auditor;

(5) the Pension Fund Annual Report of 2013-14 be noted;

(6) the Summary Statement of Accounts be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.13 pm).

(Signed) COUNCILLOR ANTONIO WEISS
Chairman

**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT AND
STANDARDS COMMITTEE**

Date of Meeting: 1 December 2014

Subject: **INFORMATION REPORT**
Treasury Management Strategy Statement
and Annual Investment Strategy: Mid-year
review 2014-15

Responsible Officer: Simon George, Director of Finance and
Assurance

Exempt: No

Wards affected: All

Enclosures: Appendix A – Economic update and
Interest Rate

Section 1 – Summary and Recommendations

This report sets out the mid-year review of treasury management activities for 2014/15. The counterparty schedule was amended by Council decision in November 2014. The change is discussed in the report.

Recommendations:

To note the Treasury Management Mid-Year Report for 2014/15.

Reason

- (a) To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.
- (b) To keep Members informed of Treasury Management activities and performance.

Section 2 – Report

Background

- 1 Treasury management is defined as:
“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 2 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Introduction

- 4 The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2011) has been adopted by the Council.
- 5 The primary requirements of the Code are as follows:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Governance, Audit, Risk Management and Standards Committee.
- 6 The purpose of this report is to specifically meet one of the above requirements, namely the mid year report of treasury managements activities for financial year 2014/15. The report covers the following:
- Treasury Position as at 30 September 2014;
 - An economic update and Interest Rates;
 - Compliance with Prudential Indicators.

Treasury Position as at 30 September 2014.

- 7 The Council's treasury position as at 30 September 2014 is detailed below:

| | As at 30 September 2014 | | | As at 31 March 2014 | | |
|--------------------------|-------------------------|----------------------|-----------------|---------------------|----------------------|-----------------|
| | Principal £m | Average Rate % | Average Life | Principal £m | Average Rate % | Average Life |
| Total Investments | 148.5 | 0.93 | 218 days | 130.8 | 1.11 | 174 days |
| Borrowing | | | | | | |
| Public Works Loan Board | 218.5 | 4.09 | 36.7 yrs | 218.5 | 4.09 | 37.2 yrs |
| Market Loans | 115.8 | 4.53 | 37.5 yrs | 121.8 | 4.58 | 36.1 yrs |
| Total Debt | 334.3 | 4.24 | 37.0 yrs | 340.3 | 4.26 | 36.8 yrs |

Review of Investment Portfolio

- 8 The Council remains a cautious investor placing security and liquidity considerations ahead of income generation. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the Funding for Lending scheme has reduced market investment rates even further. During the first half of the year the rates on offer for the call account has been 0.25%, three months are broadly in the range of 0.35% to 0.50% and for over one year period the rate is just under 1%. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.
- 9 The Council held £148.5m of investments as at 30 September 2014 (£130.8m at 31 March 2014) and the investment portfolio yield for the first six months of the year is 0.93% against the three months LIBOR of 0.55%. The Council's investment income revised budget is £1.102m, the forecast outturn is a favourable variance of £167k resulting from higher than anticipated cash balances.

- 10 The only counterparties actively in use during the period have been Lloyds and Royal Bank of Scotland group, Enhanced Money Market Fund and Svenska Handelsbanken.
- 11 The performance of the investment portfolio is benchmarked on a quarterly basis by Capita both against their risk adjusted model and the returns from other local authorities. As at 30 September 2014, the average yield on the portfolio of 0.93% exceeded the model return by 0.11%.
- 12 In addition to the investment of cash balances, The Council at its meeting in July 2013 approved a loan of £15m to West London Waste Authority to finance the cost of a new energy from waste plant. The term of the loan is 25 years at an interest rate of 7.604% on a reducing balance. The drawdown as at September 2014 is £5m of the total loan and the remaining facility of £10m will be used by June 2016. For the financial year 2014/15, the outturn forecast on the interest accrued is £400k which is included as part of the investment income.

13 The table below sets out the position as at 30 September 2014.

| | 2013/14 | | | | 2014/15 | |
|-----------------------------------|--------------|------------|--------------|------------|--------------|---------------|
| | Sep-13 | | Mar-14 | | Sep-14 | |
| | £m | % | £m | % | £m | % |
| Specified Investments | | | | | | |
| Banks & Building Societies | 10.1 | 7.2 | 0 | 0 | 15.2 | 10.2 |
| Money Market Funds | 1.6 | 1.1 | 1.6 | 1.2 | 1.6 | 1.1 |
| Non –Specified Investments | | | | | | |
| Banks & Building Societies | 109.1 | 77.5 | 109.1 | 83.5 | 111.6 | 75.2 |
| Enhanced Money Market Funds | 20 | 14.2 | 20.1 | 15.3 | 20.1 | 13.5 |
| Total | 140.8 | 100 | 130.8 | 100 | 148.5 | 100.00 |

- 14 The counter party limit for Enhanced Money Market Fund (Insight) was exceeded by £109k. This was due to the reinvestment of interest earned. The position was corrected in October 2014 by withdrawing part of the investment. Controls are already implemented to review the adherence to the counter party limits on daily basis to ensure compliance with the approved limits.
- 15 At its meeting in November the Council has approved HB Public Law Ltd. which is wholly owned by Harrow Council to be added to the counter party list. The Council has approved a start up loan of £100k for three years and therefore has increased the limit of over 24 months investment from £10m to £10.5m. To date there has not been any drawdown on this loan by HB Public Law Ltd.

Borrowing Portfolio

16 The table below analyses the maturity profile of borrowing.

| Maturity structure of borrowing | upper limit % | lower limit % | LOBO final maturity | |
|---------------------------------|---------------|---------------|---------------------|----------------|
| | | | £m | % |
| under 12 months | 20 | 0 | 0 | 0.00% |
| 12 months and within 24 months | 20 | 0 | 0 | 0.00% |
| 24 months and within 5 years | 30 | 0 | 32 | 9.57% |
| 5 years and within 10 years | 40 | 5 | 5 | 1.50% |
| 10 years and above | 90 | 30 | 297.3 | 88.93% |
| Total | | | 334.3 | 100.00% |

17 The maturity category for '5 years and within 10 years' does not meet the lower limit criteria as the £12m loan matures in April 2019 which has moved in the first half of this financial from this category to the one above of '24 months and within 5 years' category. These limits will be reviewed as part of setting the strategy for 2015/16.

18 The Council held £334.3m of borrowing as at 30 September 2014 (£340.3m at 31 March 2014) and the average borrowing rate is 4.24%. The forecast outturn on borrowing cost is a small favourable variance of £185k on a revised budget of £7.710m.

Debt Rescheduling

19 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. Therefore, no debt rescheduling was undertaken during the first six months of the year.

Economic update and Interest Rates

20 An Economic update for the first part of the 2014/15 financial year along with the interest rate forecast provided by Capita is included as Appendix A.

Compliance with Prudential Indicators

Capital Expenditure

21 The Council's capital expenditure plans are the key drivers of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans. The table below summarises the capital expenditure and funding for the current financial year:

| | 2013/14 | 2014/15 | 2014/15 |
|--|---------------|---------------|---------------|
| | Actual | Estimate | Forecast |
| | £'000 | £'000 | £'000 |
| Expenditure | | | |
| Non - HRA | 29,022 | 69,571 | 78,209 |
| HRA | 6,261 | 9,527 | 6,865 |
| TOTAL | 35,283 | 79,098 | 85,074 |
| Funding:- | | | |
| Grants | 9,404 | 46,675 | 39,792 |
| Capital receipts | 4,434 | 13,483 | 740 |
| Revenue financing | 6,748 | 7,428 | 6,865 |
| Section 106 | 76 | 366 | 266 |
| TOTAL | 20,662 | 67,952 | 47,663 |
| Net financing need for the year | 14,621 | 11,146 | 37,411 |

22 The increase in the net financing requirement for the capital programme is due to the carry forward of slippage from 2013/14 and reduced capital receipts from disposal programme than budgeted for. This will have an impact on the annual change in capital financing requirement and net borrowing requirement as detailed in tables below.

Capital Financing Requirement (CFR)

23 The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which has not immediately been paid for, will increase the CFR.

| Capital Financing Requirement | 2013/14 | 2014/15 | 2014/15 |
|-------------------------------|----------------|----------------|----------------|
| | Actual | Estimate | Forecast |
| | £'000 | £'000 | Outturn |
| | £'000 | £'000 | £'000 |
| CFR as at 31 March | | | |
| Non – HRA | 244,215 | 264,985 | 265,586 |
| HRA | 149,538 | 149,524 | 149,513 |
| TOTAL | 393,753 | 414,509 | 415,099 |
| Annual change in CFR | | | |
| Non – HRA | 26 | 3,922 | 21,371 |
| HRA | 36 | 25 | 25 |
| TOTAL | 10 | 3,947 | 21,346 |

24 The forecast outturn for CFR remains in line with the budget at £415m, however the annual change in CFR has increased significantly

25 Debt outstanding should not normally exceed CFR. The expectation is that the under borrowing will increase as cash balances are used to fund debt repayment. The Council forecast outturn shows in the table below that the under borrowing is in line with the estimate and will increase compared to 2013/14.

| Changes to Gross Borrowing | 2013/14 | 2014/15 | 2014/15 |
|--|----------------|-----------------|-----------------------------|
| | Actual | Estimate | Forecast Outturn |
| | £'000 | £'000 | £'000 |
| Debt 1st April | 350,358 | 340,261 | 340,293 |
| Change in Debt | -10065 | -6000 | -6,000 |
| Other long term liabilities (OLTL) 1st April | 23,923 | 22,121 | 21,841 |
| Expected change in OLTL | -2,082 | -1,535 | -1,900 |
| Actual gross debt at 31st March | 362,134 | 354,847 | 354,234 |
| CFR 31st March | 393,753 | 414,509 | 415,099 |
| Under / (over) borrowing | 31,619 | 59,662 | 60,865 |

26 The table below shows the net borrowing after investment balances are taken into account.

| Net Borrowing | 2013/14 | 2014/15 | 2014/15 |
|--------------------------------|----------------|-----------------|-----------------------------|
| | Actual | Estimate | Forecast Outturn |
| | £'000 | £'000 | £'000 |
| brought forward 1 April | 273,284 | 243,937 | 230,942 |
| carried forward 31 March | 230,942 | 256,382 | 269,107 |
| Change in net borrowing | -42,342 | 12,445 | 38,165 |

Operational Boundary and Authorised Limit

27 Operational Boundary – This is the limit is based on the Council's plans for capital expenditure, capital financing requirement and cash flow requirements for the year.

28 Authorised Limit – This represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

| | 2013/14 | 2014/15 | 2014/15 |
|---|----------------|-----------------|-----------------------------|
| | Actual | Estimate | Forecast Outturn |
| | £m | £m | £m |
| Authorised Limit for external debt | | | |
| Borrowing and other long term liabilities | 362 | 414 | 354 |
| Operational Boundary for external debt | | | |
| Borrowing | 340 | 345 | 334 |
| Other long term liabilities | 22 | 22 | 20 |
| Total | 362 | 367 | 354 |
| Upper limit for fixed interest rate exposure | | | |
| Net principal re fixed rate borrowing | 340 | 345 | 334 |
| Upper limit for variable rate exposure | | | |
| Net principal re variable rate borrowing | 0 | 0 | 0 |
| Upper limit for principal sums invested over 364 days | 25 | 40 | 40 |

Affordability Indicators

29 Ratio of Financing Cost to Revenue Stream – This indicator identifies the trend in the cost of capital (borrowing, depreciation, impairment and other

long term obligation costs net of investment income) against the net revenue stream.

| | 2013/14 | 2014/15 | 2014/15 |
|-----------|---------|----------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| | % | % | % |
| Non - HRA | 12 | 14 | 14 |
| HRA | 45 | 43 | 47 |

30 Incremental impact of Capital Investment Decisions on Council Tax and Housing Rents – This indicator identifies the revenue costs associated with proposed changes to the capital programme and the impact on Council Tax and Housing Rents.

| | 2013/14 | 2014/15 | 2014/15 |
|---|---------|----------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| | £ | £ | £ |
| Incremental impact of capital investment decisions | | | |
| Increase in Council Tax (band D) per annum | 21.71 | 11.43 | 60.81 |
| Increase in average housing rent per week | 2.65 | -0.14 | -1.39 |

31 The capital receipts from disposal programme are considerably less than budgeted for and this has a significant impact on the increase in Council Tax band D as shown in the table above.

Local HRA indicators

32 The ratio of gross revenue stream to debt shows a gradual increase which indicates that the ability of HRA to finance its debt is improving. As the number of dwellings reduces over the period, the debt outstanding per dwelling is estimated to increase. However, the annual increases are only marginal and the ratio compared to the average value of each dwelling is low enough for the measure to raise no concern.

| | 2013/14 | 2014/15 | 2014/15 |
|--|---------------|---------------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| Debt (CFR) (£m) | 149.5 | 149.5 | 149.5 |
| Gross Revenue Stream (£m) | 31.1 | 31.7 | 31.8 |
| Ratio of Gross Revenue Stream to Debt (%) | 21 | 21 | 21 |
| Average Number of Dwellings | 4933 | 4904 | 4892 |
| Debt outstanding per dwelling (£) | 30,306 | 30,485 | 30,560 |

33 HRA Debt Limit is shown in the table below

| | 2013/14 | 2013/14 | 2014/15 |
|----------------|---------|----------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| | £'000 | £'000 | £'000 |
| HRA Debt Limit | 149,648 | 149,648 | 149,648 |
| HRA CFR | 149,537 | 149,524 | 149,501 |
| Headroom | 111 | 124 | 147 |

Financial Implications

34 Financial matters are integral to the report.

Equalities implications

35 There are no direct equalities impacts arising from the decisions within this report.

Council Priorities

36 This report deals with the Treasury Management activity and the Prudential Code which underpin the delivery of the Council's vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Simon George..... Chief Financial Officer

Date: 18th November 2014.....

Ward Councillors notified: n/a

Section 4 - Contact Details and Background Papers

Contact: **Ian Talbot** (Treasury and Pension Fund Manager) Tel: 020-8424-1450 / Email: ian.talbot@harrow.gov.uk

Background Papers:

<http://modern.gov:8080/documents/s112592/TMS.pdf>

3 Economic update

3.1 Economic performance to date and outlook

3.1.1 U.K.

After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.5% in May and July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q1 or Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to

a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

3.1.2 U.S.

In September, the Federal Reserve continued with its monthly \$10bn reductions in asset purchases, which started in December 2014. Asset purchases have now fallen from \$85bn to \$15bn and are expected to stop in October 2014, providing strong economic growth continues. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in Q2 to 4.6% (annualised).

The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions.

3.1.3 Eurozone

The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of sovereign debt). Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

3.1.3 China and Japan

Japan is causing considerable concern as the increase in sales tax in April has suppressed consumer expenditure and growth. In Q2 growth was -1.8% q/q and -7.1% over the previous year. The Government is hoping that this is a temporary blip.

As for China, Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has raised fresh concerns. There are also major concerns as to the creditworthiness of much bank lending to corporates and local government during the post 2008 credit expansion period and whether the bursting of a bubble in housing prices is drawing nearer.

3.2 Interest rate forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

| | Sep-14 | Dec-14 | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bank rate | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.25% | 1.50% | 1.75% | 2.00% | 2.00% |
| 5yr PWLB rate | 2.70% | 2.70% | 2.80% | 2.90% | 3.00% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% | 3.50% |
| 10yr PWLB rate | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | 4.10% | 4.10% | 4.20% | 4.30% | 4.30% |
| 25yr PWLB rate | 4.00% | 4.10% | 4.20% | 4.30% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.80% | 4.90% | 4.90% |
| 50yr PWLB rate | 4.00% | 4.10% | 4.20% | 4.30% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.80% | 4.90% | 4.90% |

Capita Asset Services undertook a review of its interest rate forecasts in mid August, after the Bank of England's Inflation Report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further flight into safe havens like gilts and depressed PWLB rates further. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2015.

Our PWLB forecasts are based around a balance of risks. However, there are potential upside risks, especially for longer term PWLB rates, as follows: -

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds and into equities.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Downside risks currently include:

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- UK strong economic growth is currently dependent on consumer spending and the unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partners - the EU and US, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalising of European banks requiring more government financial support.
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competitiveness are also urgently required to lift the economy out of stagnation.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.
- There are also increasing concerns that the reluctance of western economies to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future), has created potentially unstable flows of liquidity searching for yield and therefore heightened the potential for an increase in risks in order to get higher returns. This is a return of the same environment which led to the 2008 financial crisis.

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**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT AND
STANDARDS COMMITTEE**

| | |
|-----------------------------|--|
| Date of Meeting: | 1 December 2014 |
| Subject: | INFORMATION REPORT Annual Audit Letter |
| Responsible Officer: | Simon George, Director of Finance and Assurance |
| Exempt: | No |
| Wards affected: | All |
| Enclosures: | Annual Audit Letter |

Section 1 – Summary and Recommendations

This report provides the Committee with an opportunity to consider the Annual Audit Letter

Reason

The Accounts and Audit (England) Regulations 2011 requires the committee to consider the Annual Audit Letter

Section 2 – Report

Background

- 1 The Council’s External Auditor (Deloitte LLP) writes to the Council annually in an Audit Letter summarising the important findings from his audit work.
- 2 The 2013/14 Annual Audit Letter is attached as an appendix to this report and covers the following matters:
 - Accounts and Governance
 - Value for Money
 - Grants
 - Audit Fees
- 3 The key conclusions emerging from the Auditor’s work were:
 - The Council received an unqualified audit opinion and value for money conclusion.
 - The summarised recommendations on page 3 were considered by the Committee at its meeting in September 2014 and most of these will be implemented during the financial year 2014/15.
 - The Council had continued to demonstrate strong financial resilience and has robust systems and processes to manage financial risks and opportunities and prioritise its resources within tighter budgets.

Financial Implications

- 4 There are no direct financial implications arising from this report.

Equalities implications

- 5 There are no equalities implications.

Council Priorities

- 6 The Annual Audit Letter provides assurance that the Council has managed its finances and delivered value for money in accordance with Council’s corporate vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Simon George..... Chief Financial Officer

Date: 18th November 2014.....

Ward Councillors notified: n/a

Section 4 - Contact Details and Background Papers

Contact: Hasina Shah (Treasury and Pension Fund Manager) Tel:
020-8424-1573 / Email: hasina.shah@harrow.gov.uk

Background Papers:

<http://modern.gov:8080/documents/s116418/Appendix%20%20final%20ISA260%20Auditor%20Report.pdf>

London Borough of Harrow

Annual Audit Letter to the
Members of the Council
for the year ended

31 March 2014

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Executive summary

We are required to provide an annual audit letter which reports our conclusions from the audit of the London Borough of Harrow ("the Council") for the year ended 31 March 2014. This executive summary highlights the most significant matters which we would like to bring to your attention; it should therefore be read in conjunction with the following sections of the letter:

Financial statements

We issued an unqualified opinion on the Council's accounts for the year ended 31 March 2014.

At the same time we issued our opinion, we issued our audit certificate. We were able to do this in the absence of receiving any potential objections to the year ended 31 March 2014 accounts and because our work on the whole of government accounts return and other work specified in the Code was complete.

In September 2014 we also issued our certificate on the 31 March 2013 accounts having completed our work on potential objections received in relation to that year of account.

The Council's local government pension scheme annual report

We issued an unqualified opinion on information in the Council's pension scheme annual report for the year ended 31 March 2014.

Value for money conclusion

We issued an unqualified conclusion on the Council's arrangements for securing value for money during the year ended 31 March 2014.

Whole of Government Accounts consolidation return

We have completed our work and issued our assurance statement, which was unqualified.

Grants

We undertake work on grant claims and other returns on behalf of the Audit Commission and provide certificates to grant funders on compliance with aspects of the terms on which funds have been claimed. We will provide a separate, detailed letter to the Council in early 2015 on the outcome of this work, but at this point there are no matters which we consider need to be brought to your attention.

There are no individually significant recommendations which we wish to bring to Members' attention here.

1. Introduction

The purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Council as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money.

The Letter will be published on the Audit Commission website at www.audit-commission.gov.uk and should also be posted on the Council’s website.

Responsibilities of the Appointed Auditor and the Council and scope of our work

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

We have been appointed as the Council’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (“the Code”). Under the Code, we review and report on:

- the Council financial statements;
- the Council’s local government pension scheme annual report; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion).

We also provide an assurance report to the National Audit Office on the financial information prepared by the Council for consolidation into the Whole of Government Accounts.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

As an additional responsibility to those set out in the Code, we also undertake grant certification work on behalf of the Audit Commission.

2. Financial reporting

Key issues arising from the audit of the accounts

We have issued a separate report for the year ended 31 March 2014, which details the findings from our audit of the financial statements and the Council's value for money arrangements.

In that report we explained how we focused our work on areas which involved more complex accounting judgements and estimation including:

- accounting for grant income;
- management override of control;
- valuation of property; and
- valuation of the local government pension fund liability.

We did not identify any significant issues in the course of our testing of these areas.

Our report to the Governance, Audit, Risk Management and Standards Committee also includes some recommendations to assist with future financial control and reporting. These recommendations are in respect of: procedural improvements in relation to property valuations based on best practice seen elsewhere; ensuring that infrastructure assets are suitably identified on records retained by both the operational and finance departments; ensuring debit items are cleared in a timely manner from the creditors ledger; and formalising guidance on usage of cost centres to ensure consistency of approach across the authority.

Key issues arising from the audit of the pension scheme accounts within the pension scheme annual report

We have reported separately to the Governance, Audit and Risk Management Committee in respect of the work we performed on the pension scheme. We have issued an unqualified opinion on the pension scheme accounts within the pension scheme annual report.

Whole of Government Accounts

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice 2010 to review and report on the whole of government accounts return. Our report is used by the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts. We have issued our unqualified opinion in this regard.

Issue of audit certificate

We have issued our audit certificate for the year ended 31 March 2014.

3. Value for money conclusion

The scope of our work

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Our conclusion is given in relation to the following criteria specified by the Audit Commission:

| Specified criteria for auditors' VFM conclusion | Focus of the criteria for 2013 |
|---|---|
| The organisation has proper arrangements in place for securing financial resilience. | The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. |
| The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. | The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. |

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on the our responsibilities;
- any work mandated by the Commission – of which there was none in 2012/13; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge our responsibilities.

Risk assessment

We undertook a risk assessment to identify potential risks to the value for money conclusion. Based on this work, we considered that the following could be risks for VFM. We undertook further procedures in relation to these to ensure that the risks arising in these areas have been mitigated by the arrangements in place within the Authority:

- low level of general reserves;
- future funding gaps; and
- impact of deletion of CEO post and potential for reinstatement.

Overall conclusion

On the basis of the work performed in relation to the risks above, and having considered control weaknesses identified in the course of our audit, we issued an unqualified VFM conclusion having determined that neither the identified risks nor the identified control weaknesses would impact this.

4. Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by Central Government or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for agreeing certification arrangements with the respective grant-giving bodies, principally government departments. The appointed auditor carries out work on individual claims as an agent of the Commission under these arrangements which comprise certification instructions which the auditor must follow.

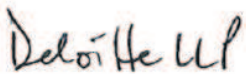
Our programme is in progress at the time of writing. We will issue a separate Annual Audit Letter in respect of the grants programme in early 2015, following the completion of the programme. At this point there are no matters which we consider need to be brought to your attention.

5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you previously and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the Council and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



Deloitte LLP

Chartered Accountants
St Albans

20 October 2014

Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in respect of the period 1 April 2013 to 31 March 2014 are as follows:

| | | 2013/14 £'000 | 2012/13 £'000 |
|---|-----|------------------|------------------|
| Fees payable in respect of our work under the Code of Audit Practice | [1] | 196 | 193 |
| Fees payable in respect of our work under the Code of Audit Practice – extensions to audit work | [2] | 8 | 8 |
| Fees payable in respect of the WGA return | | 5 | 5 |
| Fees payable in respect of the certification of grants | | 40 | 43 |
| Fees payable in respect of our work under the Code of Audit Practice in respect of the Pension Fund | | 21 | 21 |
| Other | [3] | - | 16 |
| Audit services provided | | 270 | 286 |

[1] In March 2014 the Audit Commission agreed a rebate to be distributed across local audit bodies. The announcement came following a meeting of the Audit Commission's Board, who met to discuss the strategy for managing any retained earnings prior to its closure at the end of March 2015. The decision was made as part of the Board's role in setting the Commission's strategy and objectives and for determining its budget and the way it carries out its functions. The rebate was set at 13.7 per cent of the 2012/13 annual audit fee. The rebate sent to Harrow was £27,146, with a further £2,874 in relation to the pension fund.

The fee above includes £2,750 in relation to our work on the business rates provision which has been approved by the Audit Commission.

[2] Extensions to audit work are the fees charged in relation to our procedures required in addressing objections to the accounts.

Since 31 March 2014 we have completed our work on a potential objection received in relation to the 2012/13 year end. Since issuing our ISA260 report, the Audit Commission has approved a fee of £4,692 in relation to this work. This fee will be disclosed as a cost in the 2014/15 financial statements given the timing of the work and is hence excluded from the table above.

[3] 'Other' relates to work for the 2011-12 audit and relates to overruns charged additional work required to finalise the audit of the financial statements.

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**REPORT FOR: GOVERNANCE, AL...
AND RISK
MANAGEMENT
COMMITTEE**

Date of Meeting: 1st December 2014

Subject: **INFORMATION REPORT –
Corporate Anti-Fraud Team
(CAFT) Mid Year Report 2014-15**

Responsible Officer: Simon George – Director of Finance & Assurance

Exempt: No

Enclosures: Appendix 1 – CAFT structure pre and post consultation
Appendix 2 – CIPFA Code of Practice on Managing the Risk of Fraud and Corruption
Appendix 3 – Protecting the Public Purse 2014

Section 1 – Summary

This mid year report details the Corporate Anti-Fraud Team performance against the Service Fraud Plan for 2014/15. It also provides some information about the future work of the CAFT since benefit fraud work has transferred to the Department for Work & Pensions. The Committee is asked to consider from a fraud risk perspective where in their opinion the priorities for team lie in both the short term and medium to longer term.

FOR INFORMATION

Section 2 – Report

Of the thirteen objectives set in the Fraud Service Plan for 2014-15, one has exceeded expectation, one was partially achieved, two have been fully achieved, five are on target to be achieved, two have been discontinued and removed from the plan and two are behind target.

2.1 Objective - Achieve 16 Housing/Council Tax Benefit sanctions (work transfers to DWP on 01/10/14)

Progress – Partially achieved

The team achieved 12 sanctions up to and including the end of the 2nd quarter, which fell just short of the target of 16. However, 7 sanctions were administered in the early part of October 2014 as ownership of these cases was retained by the authority as they did not meet the DWP case transfer criteria.

Much of the 2nd quarter focus of the team was geared towards preparing to transfer the housing benefit fraud investigation work to the DWP Single Fraud Investigation Service (SFIS) on 1st October 2014. All live investigation work that met the transfer criteria transferred to the DWP which amounted to 35 live case files and 76 referrals that had not yet been processed. The main tasks involved were:-

- Identifying those employees deemed to be in scope to transfer to the DWP under a 'TUPE like' arrangement and resolving the associated HR matters.
- Live case file housekeeping and selecting the appropriate cases for transfer with officers.
- Supporting Housing Benefit and the DWP SFIS in establishing a relationship moving forward so that housing benefit fraud investigation work continues in a seamless manner.
- Communications internally and externally to inform that this work was no longer the responsibility of the authority.

The work transfer deadline was achieved and 3 FTE employees also transferred with the work. In conjunction with the SFIS transfer work, a decision was also made to consult on the restructure the team to reflect the loss of the benefit fraud work and to deliver efficiency savings. See Appendix 1 for CAFT structure pre and post consultation which illustrates the post of Investigation Team Leader and Intelligence Officer have been deleted delivering a saving of £80,000. At present there are two vacant Investigation Officer posts that will be recruited to in the coming months.

2.2 Objective - Identification of 15 housing tenancies subject to misuse and target for possession action

Progress – behind target

To date 3 tenancies have been brought back into Council control which is short of the target at the half way stage. Expected positive outcomes are down against target, but not through any lack of investigation activity.

Recent cases investigated by the team has seen a recent backlog of cases where tenants are resisting the opportunity to terminate their tenancies during the course of an investigation and in some cases have led to the authority pursuing court action to recover the properties. This trend is reflected across the country at recent national

forum covering other fraud types but focusing on tenancy fraud and has the following common characteristics as follows;

- Individuals refuse to reveal any reasonable information concerning their use and occupation activities in the home when a significant amount of effort is made to contact tenants at different times of the day.
- A failure to co-operate with enquiries when tenants have been asked to attend appointments and meetings and supply records concerning links to the property.

Currently, there are 15 live housing investigations, 6 reports recommending possession action have been passed to Housing Management to consider the findings and as a result of these reports, Housing have instructed Legal Services to seek possession on 3 cases for various non occupation/subletting suspicions.

A protocol between the CAFT and Housing Management has also been agreed which will go live on 1st December 2014. This will provide a framework for information exchange, expected standards of performance on both services and a common goal, that of protecting the Council's social housing scheme from misuse.

2.3 Objective – To undertake a Housing Tenancy Datamatch

Progress – On target

The authority provided a snapshot of its live tenancy data to Experian earlier in the year and this data was matched against its credit bureau data in an attempt to identify individuals that could possibly be residing away from the tenancy address.

In total the authority was provided with the following match types and numbers of matches.

| Risk profile | Numbers of matches |
|---------------------|---------------------------|
| Very high | 14 |
| High | 177 |
| Medium | 436 |
| Low | 302 |
| Total | 929 |

Working in partnership with Housing Management, the team has undertaken a preliminary 1st phase sift on all 'Very high' and is on target to complete a sift of the 'High' matches by the end of November 2014. 'Medium' and 'Low' risk matches will be processed and complete by the end of January 2015.

Those cases where evidence emerges that the match appears to show the tenant is not occupying the address as their principle home or that they are subletting, will become full blown criminal investigations and possession action will be sought.

2.4 Objective – Harrow to join the Pan London Housing Fraud Hub in 2014/15

Progress – On target

The London Housing Fraud Hub is a project involving a number of London Boroughs that input common housing register, housing tenancy and council tax support data on a monthly basis into a shared but secure data repository accessible only by members.

The main objective of the hub is to support front line service delivery and to act as a filter at the gateway to prevent fraud entering the housing system so that individuals can be challenged about anomalies before a housing duty is accepted and costs are incurred.

To date 14 London Boroughs have become members sharing their data, and another 4 including Harrow are due to join before the end of the financial year. The hub is the first of its kind in the country where multiple authorities are sharing data proactively on a monthly basis to verify identity and other individual personal details that apply for housing services.

2.5 Objective - A blue badge proactive fraud drive delivered in each quarter

Progress – On target

The team led 'Operation Rio' in June 2014 on Northolt Road, South Harrow in partnership with Parking Enforcement and The Metropolitan Police. This resulted in 6 badges being confiscated and as a result of these incidents 4 individuals accepted cautions for the offence of misusing the badge and paid £200 towards the cost of the investigation and 1 individual is due to attend an appointment in the coming weeks.

As in 2.1 above, given the work priority of preparing for the SFIS transfer of benefit fraud work, no blue badge operation was undertaken in quarter two. There is an Operation planned for quarter three in December 2014 and it is envisaged that two further operations will be delivered in quarter four.

The team will continue to risk assess all fraud referrals alleging blue badge misuse in accordance with its priorities so to ensure that resources are targeted at the right cases.

2.6 Objective - Fraud risk audit of Direct Payment cases

Progress – behind target

This area of work is still deemed to be at risk to fraud given the work undertaken in 2013/14 where four fraud cases were uncovered amounting to misappropriation of £112,000 of council money. However, work stalled on this objective given the SFIS transfer work and the officer with responsibility for this objective transferred to the Department for Work & Pensions.

The project has been transferred to another Investigation Officer on the team and they will continue with reviewing high value live cash personal budget cases to ensure that the basis upon which the budget was agreed has not changed and that the budget is being spent in accordance with the care plan.

2.7 Objective - Fraud risk audit of Insurance cases

Progress – discontinued and objective removed from the plan

This objective has been removed from the CAFT Service Plan due to a lack of capacity on the team. The officer with responsibility for this objective transferred to the Department for Work & Pensions and the post was deleted.

2.8 Objective - Identify and pursue four cases suitable for Proceeds of Crime Act 2002 (POCA) action and recover £15,000

Progress – discontinued and objective removed from the plan

To date in 2014/15 no cases have been identified for POCA action. Given the fact that all other historical cases where POCA action has been undertaken by the team have been housing benefit fraud cases, it is doubtful whether this objective will be met given that this work is no longer undertaken by the team.

Whilst this objective has been removed from the plan as it is unrealistic to recover £15,000 in 2014/15, the potential is always present to consider cases for POCA action if a fraud is uncovered and assets identified.

2.9 Objective - National Fraud Initiative 2014/15 data submission

Progress - Achieved

The National Fraud Initiative(NFI) is a 2 yearly nationwide public sector data matching exercise co-ordinated by the Audit Commission in which contributing organisations submit bulk data for services such as housing rents, council tax and support, housing benefits, direct payments, blue badges, payroll, creditors and insurance for fraud and error matching.

All data sets required by the Audit Commission were extracted from legacy systems and uploaded to the secure website by the October 2014 deadline in preparation for the matching exercise to begin. The matched records will be returned to the authority for sifting in January 2015.

The team will continue to support the various services in processing the matches and any cases deemed to be fraud related will be picked up as reactive referrals by the team.

2.10 Objective - The identification of £20,000 income via administrative penalties, corporate fraud work and Housing Benefit overpayment recovery work.

Progress – exceeded

Income generated to date amounted to just in excess of £36,000 made up of a combination of monies recovered through housing benefit administrative penalties and contributions towards investigation costs paid by individuals cautioned for blue badge misuse.

2.11 Objective – Deliver Anti-Fraud Week campaign

Progress – On target

Building on the success of the Councils 1st anti-fraud week in February 2014, a further campaign is planned to take place in February 2015 which will see a real push to raise awareness of fraud and the impact upon all council services.

2.12 Objective - Pilot Identity Authentication Solutions software in Housing Services

Outcome – Achieved

The team organised for Housing Services to trial a piece of Identity Documentation Verification software for a 3 month period between June – August 2014 whereby individuals applying to the authority for assistance with housing, had their ID documents scanned using the smart software. The trial was not publicised and it ran discretely alongside normal housing services.

In total, 235 scans were taken of a variety of identity documents and they verified as authentic. No documents were found to be fraudulent or compromised which provides the authority with some level of assurance that it is not being targeted by identity fraudsters.

No decision has been made as to whether the software will be installed on a permanent basis in housing or other front facing services as it would need to be funded.

2.13 Objective - Fraud risk review of housing waiting list

Outcome – On target

A proactive fraud risk review is currently being undertaken on all individuals/families registered on band A and A* on the Council's waiting list to verify that the circumstances upon which the banding was set, is still the case. In addition to this piece of proactive work, verification is also being undertaken on all applications that are set to 'live' on the waiting list.

The progress to date is as follows:-

Proactive referrals from waiting list A & A*

| RAG rating | Numbers |
|------------|---------|
|------------|---------|

| | |
|--|-----|
| | |
| Green (OK) | 47 |
| Amber (further checks required) | 7 |
| Red (investigation underway) | 7 |
| Recommended removal from register (housekeeping) | 7* |
| Recommended removal from register (fraud) | 5** |
| Sanctions (caution/prosecution) | 0 |

* Housing Needs agreed with the recommendations and removed 7 applications from the waiting list or reduced banding

** Housing Needs agreed with the recommendations and removed 5 applications from the waiting list or reduced banding and all cases now subject to fraud investigation

Reactive referrals from housing needs

| RAG rating | Numbers |
|--|----------------|
| Green (OK) | 9 |
| Amber (further checks required) | 3 |
| Red (investigation underway) | 1 |
| To be looked at | 2 |
| Recommended removal from register (housekeeping) | 0 |
| Recommended removal from register (fraud) | 0 |
| Sanctions (caution/prosecution) | 0 |

A progress meeting with Housing Needs is scheduled to take place shortly to measure the effectiveness of this piece of work and whether there is merit in continuing a review on the other bands of B and C

2.14 Future work of the Corporate Anti-Fraud Team

On 1st October 2014 all housing benefit fraud work transferred to the Department for Work & Pensions, Single Fraud Investigation Service. As stated in 2.1 above, 3 FTE employees also transferred with the work and the CAFT was restructured to reflect the loss of this work. The current establishment is shown in Appendix 1.

This change has triggered a shift in the type and composition of work the team picks up moving forward. Historically, the team received the vast majority of its work through reactive housing benefit referrals combined with proactive corporate fraud work involving housing, blue badges, social care, insurance, grants and internal matters. Moving forward, the team will now need to be far more proactive in its approach to countering fraud as the reactive referral numbers will not be sufficient.

This changing landscape of counter fraud work is the challenge now facing the authority and the committee is asked for its views on where the team should be focussing its energy and resources both now and in the future.

2.15 CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (Appendix 2)

CIPFA's recently issued code of practice will support organisations seeking to ensure they have the right governance and operational arrangements in place to counter fraud and corruption. It is a voluntary code that has 5 principles:-

- Acknowledge responsibility
- Identify risks
- Develop a strategy
- Provide resources
- Take action

The code builds on CIPFA's previous guidance the *Red Book* (Managing the Risk of Fraud, Actions to Counter Fraud and Corruption). It is shorter and clearly sets out the importance of top level support from the governing body and leadership team of the organisation wishing to utilise the code as a measurement of its governance arrangements.

It is envisaged that this code will form the framework of both Internal Audit and External Audit assessment of counter fraud arrangements within Local Government. The Committee is therefore asked for its views on the Code and whether it is recommended that the Code is adopted by the authority as a tool by which it can provide assurance on countering fraud and corruption to Senior Management, Elected Members and the Public.

2.16 Protecting the Public Purse Report 2014 – Audit Commission (Appendix 3)

The Committee is asked to note this report for information only.

Section 3 – Further Information

None

Section 4 – Financial Implications

The financial implications have been shown where relevant, in the report.

Section 5 - Equalities implications

None

Section 6 – Corporate Priorities

The performance and outcomes of the Corporate Anti-Fraud Team contributes to all of the corporate priorities by detecting, investigating and pursuing matters of fraud and losses associated with fraud affecting council business

Name: Simon George



Chief Financial Officer

Date: 17/11/14

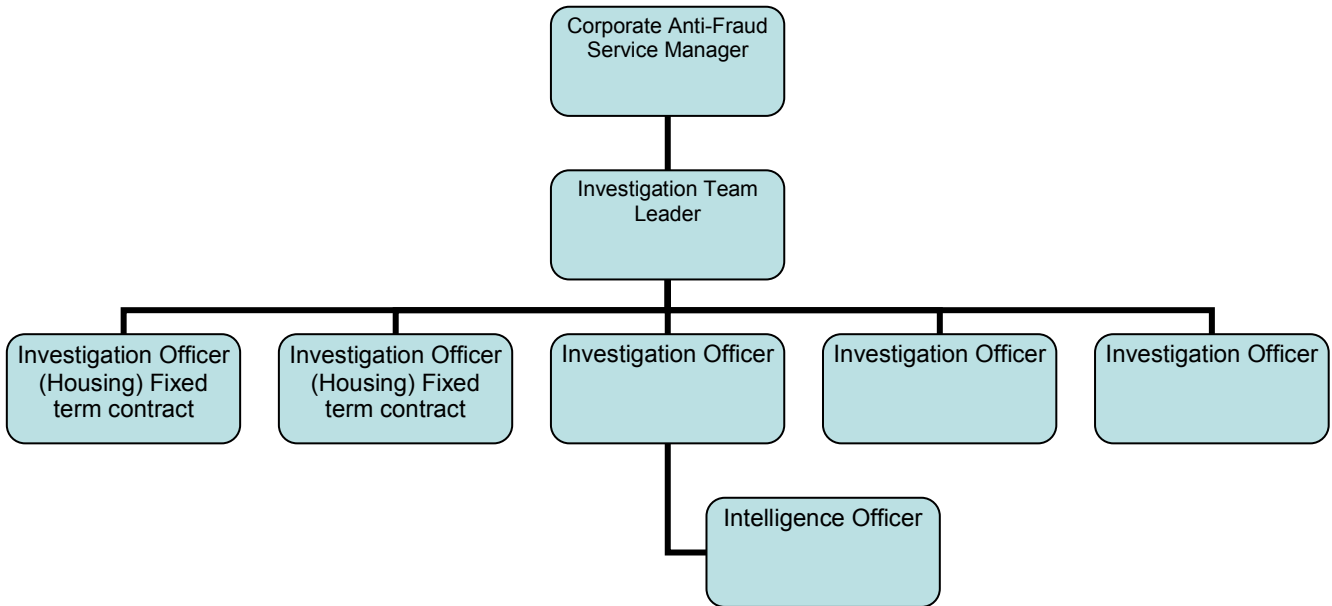
Section 7 - Contact Details and Background Papers

Contact: Justin Phillips, Corporate Anti-Fraud Manager

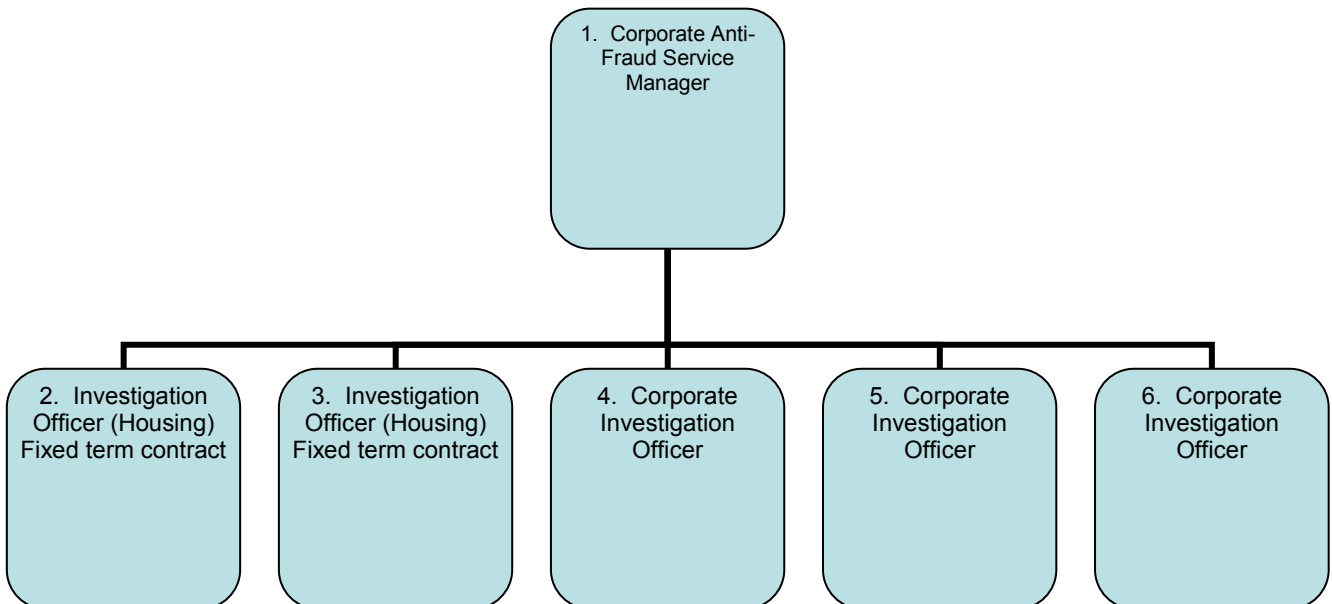
Background Papers: None

Appendix 1

CAFT Structure Pre SFIS Consultation



CAFT Structure Post SFIS Consultation



Posts 2 & 3 are subject to continued non general funding via the Housing Revenue Account and may reduce to 1 FTE for 15/16.

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

Code of Practice Principles

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

The five key elements 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.

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:

- The organisation's leaders acknowledge the threats of fraud and corruption, the harm they can cause and the potential for savings from managing the risk;
- The organisation's leaders acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the standards of good governance;
- The governing body acknowledges its responsibility for managing its fraud and corruption risks and will be accountable for the actions it takes through its governance reports;
- The governing body sets a specific goal of improving its resilience to fraud and corruption.

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:

- Fraud risks are routinely considered as part of the organisation's strategic risk management arrangements;
- The organisation identifies the risks of corruption in its governance framework;
- The organisation uses estimates of fraud loss, and where appropriate measurement exercises, to quantify the harm that different fraud risks cause.

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:

- 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;
- The strategy includes consideration of all the pro-active and reactive components of a good practice response to fraud risk management:
 - Pro-active
 - Developing a counter-fraud culture to increase resilience to fraud;
 - Deterring fraud attempts by publicising the actions the organisation takes against fraudsters;

- Preventing fraud through the implementation of appropriate and robust internal controls and cyber security measures.
 - Reactive
 - Detecting fraud through data and intelligence analysis;
 - Implementing effective whistleblowing arrangements;
 - Investigating fraud referrals;
 - Applying sanctions, both civil and criminal;
 - Seeking redress, including the recovery of assets and money.
- The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

Provide Resources

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

Specific steps should include:

- An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk;
- The organisation utilises counter fraud staff with appropriate skills and professional accreditation;
- The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required;
- The organisation has protocols in place to facilitate data and intelligence sharing to support counter fraud activity.

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:

- 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 policy and register,
 - Codes of conduct and ethics,
 - Cyber security policy.
- Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of improving resilience to fraud and corruption;

- There is a report to the governing body at least annually on performance against the counter fraud strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report;
- The governing body receives a report at least annually on the impact and cost effectiveness of its counter fraud activities.

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 by the governing body and signed by the person responsible for signing the annual governance report.¹

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.

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: |
|---------|-----------------|--------------|

¹ Further guidance on the implementation of the code and an assessment tool to support evaluation will be made available by CIPFA.

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 leaders:

The organisation's leaders will be members of the governing body or the organisation's executive management team. Examples include, Cabinet Members, Chair of Board, Accounting Officer, Chief Executive, Executive Directors, Vice-Chancellor, Principal, Head Teacher.

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Protecting the public purse 2014

Fighting fraud in 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 bodiesⁱ 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 causesⁱ.

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.

ⁱ 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 bodiesⁱ. 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

ⁱ 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 fraudⁱ - 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 (%) |
|---|--|--|---|
| Total fraud | | | |
| 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 |
| Housing and council tax benefitⁱⁱ | | | |
| 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 |
| Council tax discounts | | | |
| 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 |
| Other frauds | | | |
| 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

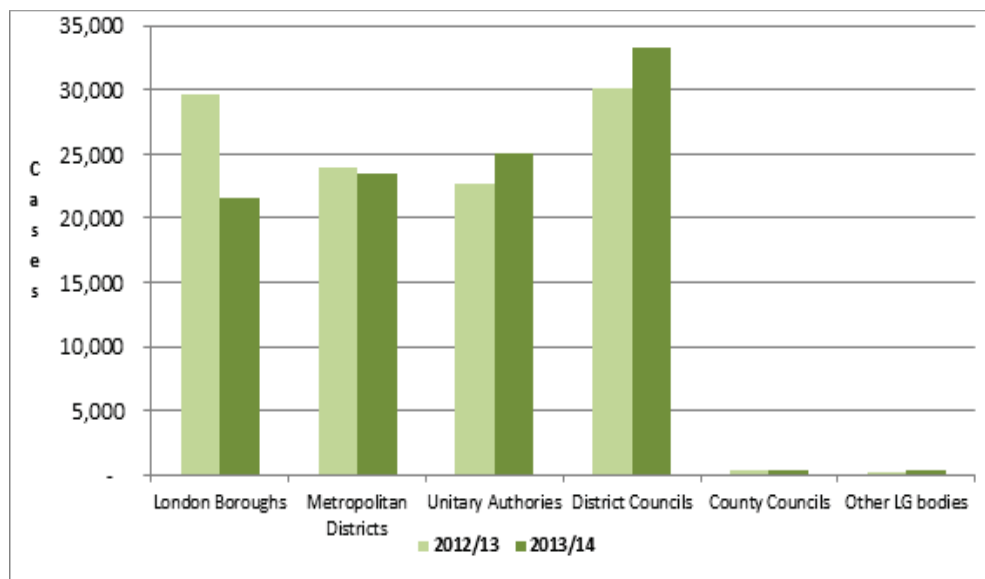
ⁱ We report housing tenancy fraud in Table 3.

ⁱⁱ 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

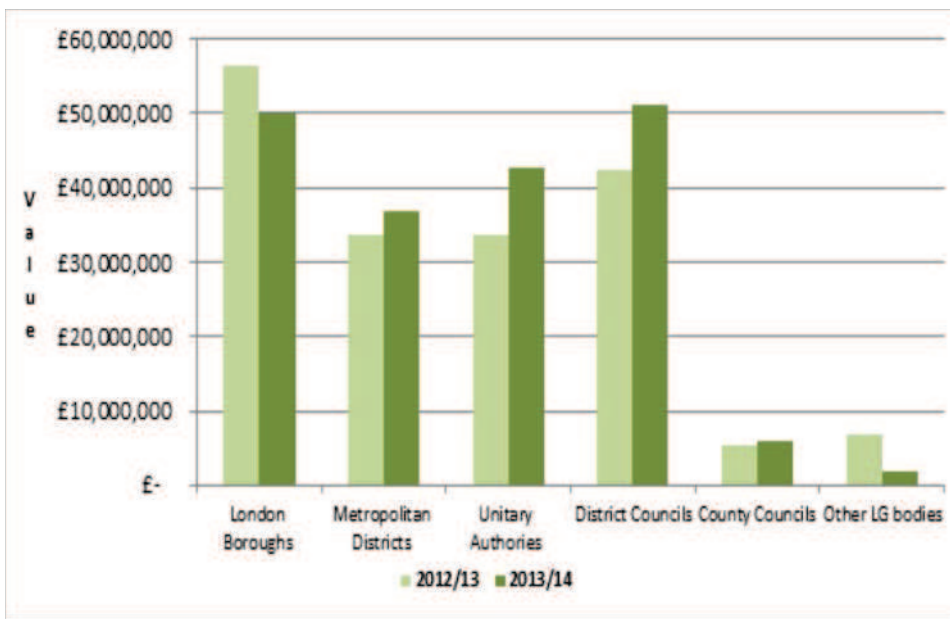


Source: Audit Commission (2014)

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

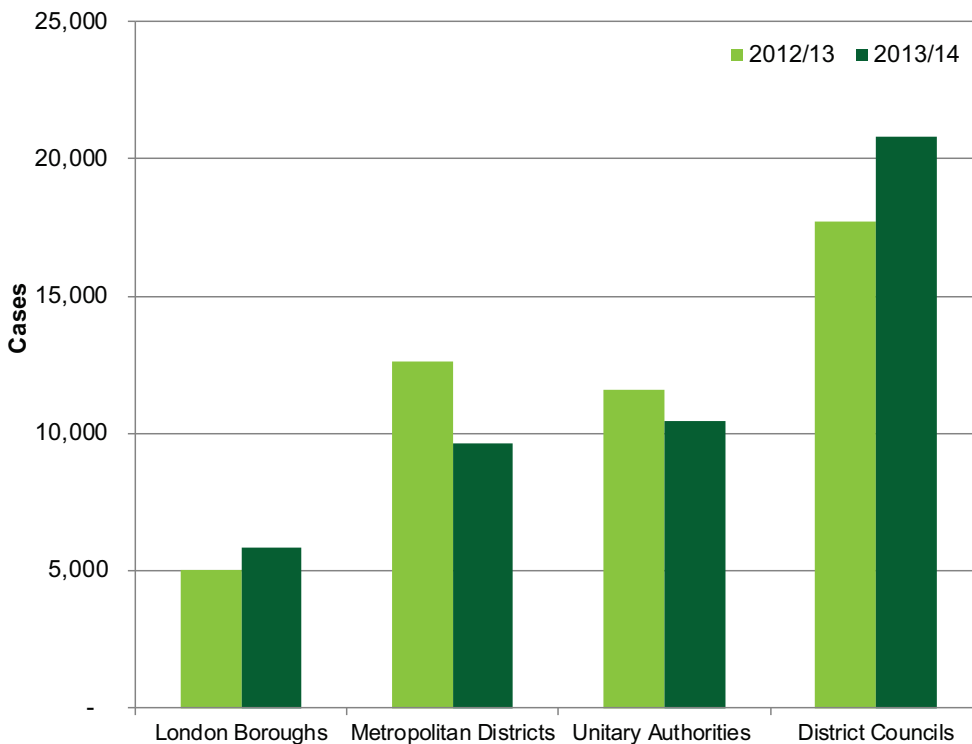
20 In 2013/14, housing benefit and council tax benefit frauds comprised 45 per cent of all fraud cases, but accounted for 69 per cent of the value of all detected frauds.

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;
- insuranceⁱ – 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

ⁱ 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 |
| Total | 1,701,148 (100) | 3,030 | 2,642 | +15 |

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).

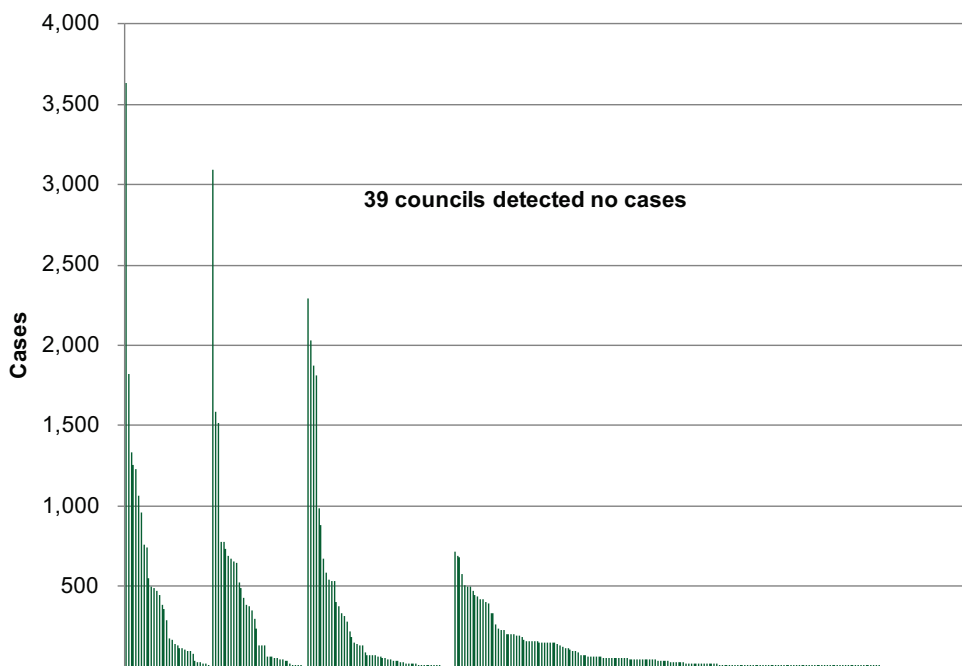
30 Only 32 of 353 councils reported frauds they believed were linked to organised crime. They were most likely to detect the involvement of organised crime in housing benefit (11 councils), which probably reflects the greater number of detected frauds in this category.

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)ⁱ.

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



Source: *Audit Commission*

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

ⁱ 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.

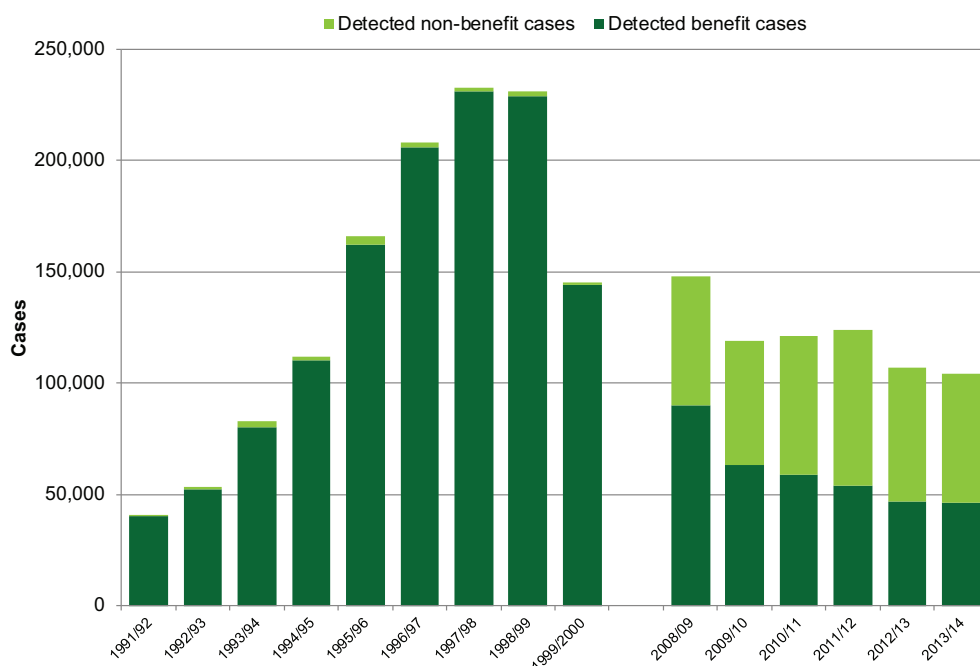
The shift in focus from benefit fraud to non-benefit fraud

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 fraudⁱ

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 2006ⁱⁱ. 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.

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

ⁱⁱ 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 2013/14ⁱ; 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**

ⁱ 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 75 | 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) fraudⁱ**
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)

ⁱ 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 Schoolsⁱ 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 fraudⁱⁱ, 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).

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

ⁱⁱ 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.

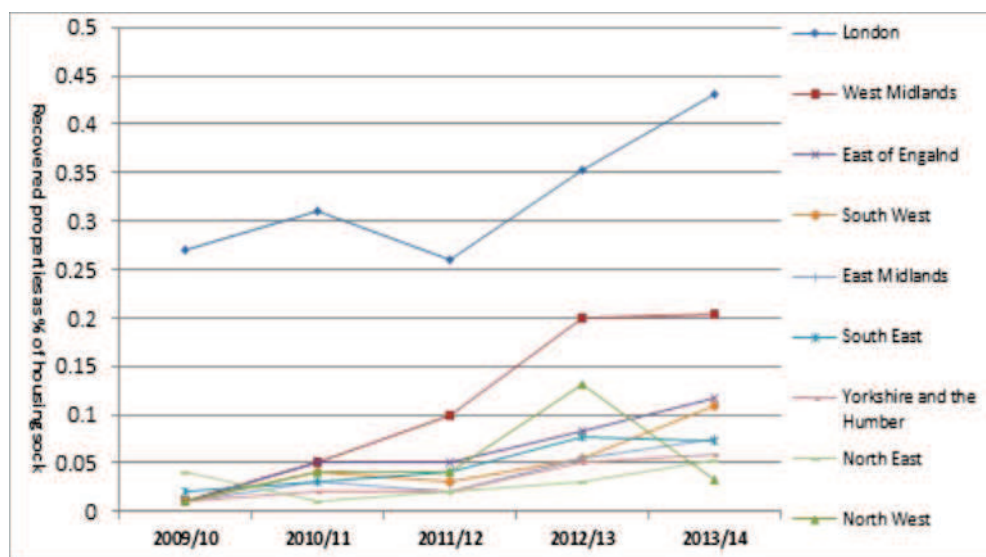
65 We believe that this approach helped to publicise the issues and encouraged social housing providers to combat tenancy fraud more effectively. Between 2009/10 and 2013/14, the total number of detected cases of housing tenancy fraud increased by 92 per cent.

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 millionⁱ.

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.

ⁱ 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.

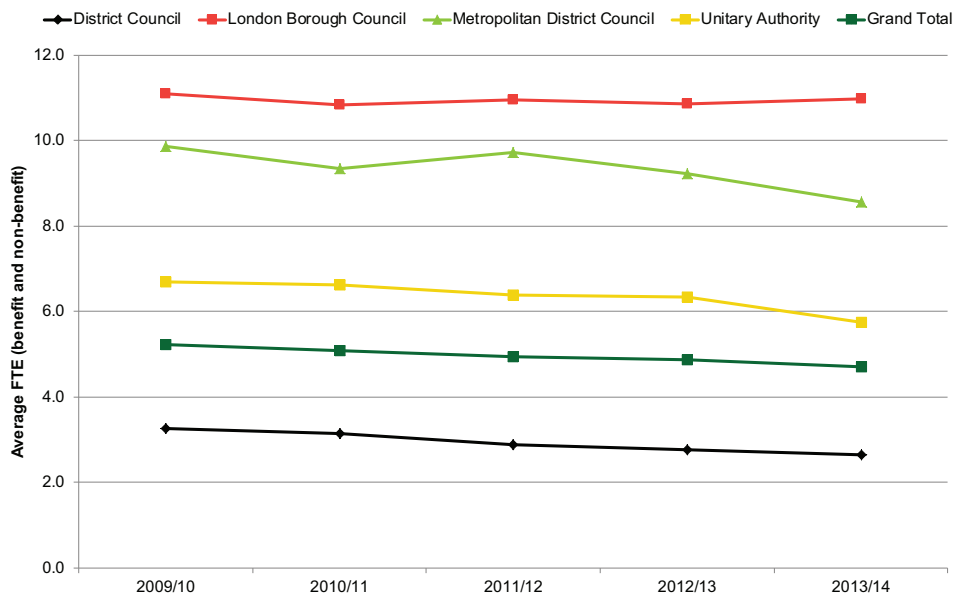
92 Over the past 25 years, councils have substantially increased the number of benefit fraud investigators they employ. Between 1994 and 1997, staff numbers rose from 200 to over 2,000 (Ref. 14). The government encouraged councils to enhance the skills and training of these new staff. In 1998, the DWP 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 incomeⁱ (Ref. 15).

ⁱ 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)

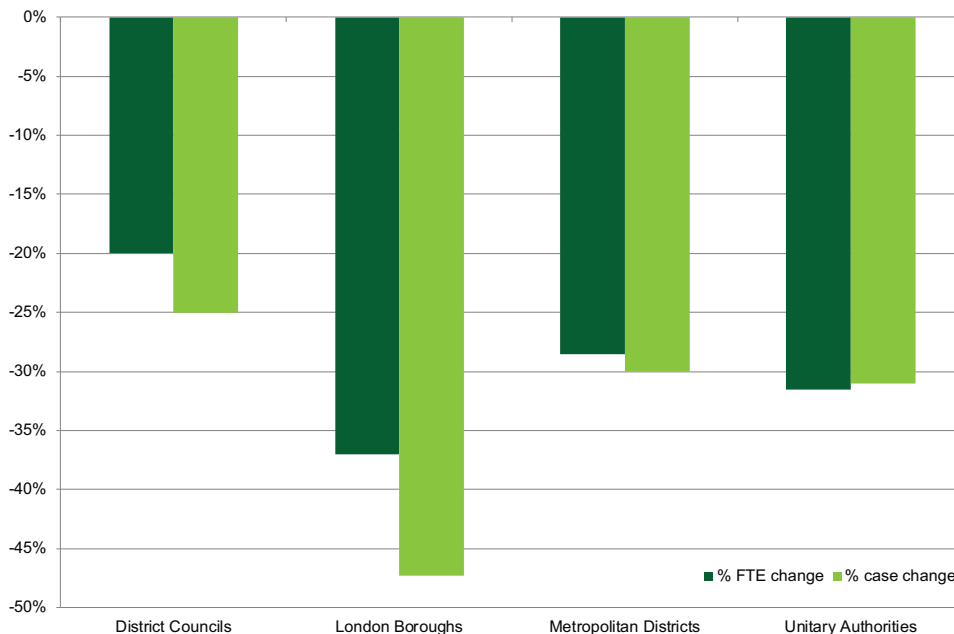
95 London councils employ the most investigators and have seen little change at around 11 FTE staff over the whole five years. District councils have employed the fewest fraud investigators, and have seen their average FTE numbers reduce by 19 per cent, with unitary authorities and metropolitan districts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

ⁱ 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).

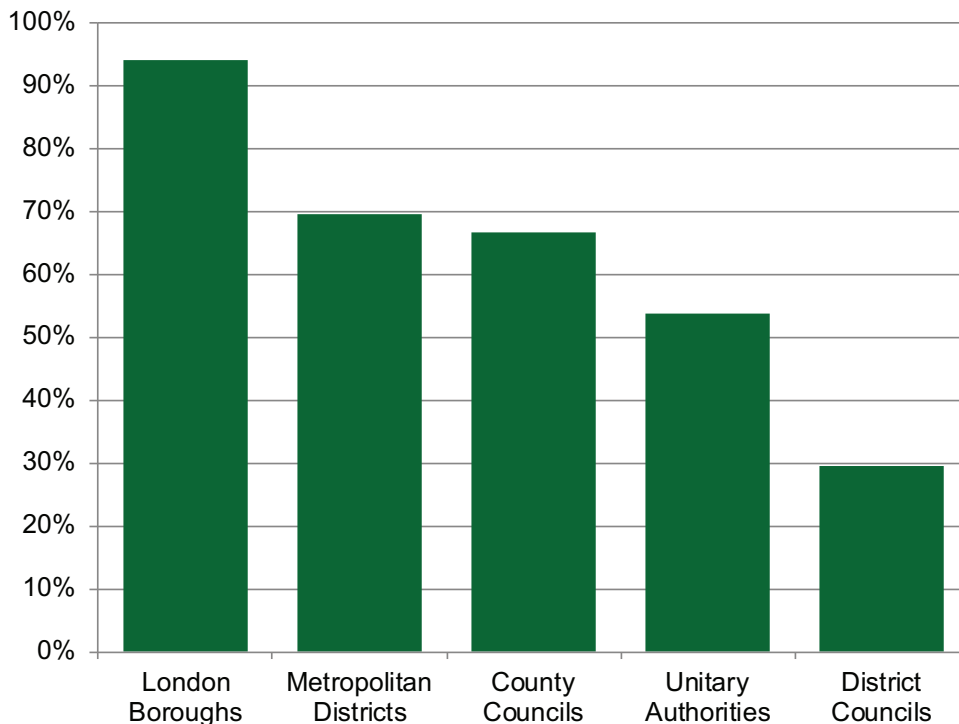
106 Councils can pursue recovery through the civil or criminal courts, but they can consider alternative means to punish fraudsters, deter potential fraudsters and also generate funds to reinvest in tackling fraud.

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 Lewishamⁱ 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.

ⁱ 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 fraudstersⁱ.

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.

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.

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

ⁱ 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 ⁱ | 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)

ⁱ 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? | | | | |

| II. Fighting fraud with reduced resources | Yes | No | Previous action | 2014 Update |
|--|------------|-----------|------------------------|--------------------|
| 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? | | | | |
| III. Current risks and issues | Yes | No | Previous action | 2014 Update |
| Housing tenancy | | | | |
| 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? | | | | |
| Procurement | | | | |
| 23. Are we satisfied our procurement controls are working as intended? | | | | |
| 24. Have we reviewed our contract letting procedures in line with best practice? | | | | |
| Recruitment | | | | |
| 25. Are we satisfied our recruitment procedures | | | | |
| <ul style="list-style-type: none"> ■ prevent us employing people working under false identities; | | | | |
| <ul style="list-style-type: none"> ■ confirm employment references effectively; | | | | |
| <ul style="list-style-type: none"> ■ ensure applicants are eligible to work in the UK; and | | | | |
| <ul style="list-style-type: none"> ■ require agencies supplying us with staff to undertake the checks that we require? | | | | |

| III. Current risks and issues (continued) | Yes | No | Previous action | 2014 Update |
|---|-----|----|-----------------|-------------|
| Personal budgets | | | | |
| 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? | | | | |
| Council tax discount | | | | |
| 28. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible? | | | | |
| Housing benefit | | | | |
| 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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**REPORT FOR: GOVERNANCE, AL... ,
RISK MANAGEMENT
AND STANDARDS
COMMITTEE**

Date of Meeting: 1 December 2014

Subject: **INFORMATION REPORT –
Internal Audit Mid-Year Report
2014/15**

Responsible Officer: Simon George – Director of Finance &
Assurance

Exempt: No

Enclosures: Appendix 1 – Internal Audit Mid Year
Report 2014/15
Appendix 2 - Suspected Financial
Irregularities
Appendix 3 – Follow-up of High Risk
Recommendations Part Implemented/In
Progress/Planned or Not Implemented

Section 1 – Summary

This report sets out progress against the 2014/15 Internal Audit plan and key issues arising from work undertaken.

FOR INFORMATION

Section 2 – Report

- 2.1. Annually the GARMS Committee considers a mid and full year Internal Audit Report covering progress against the Internal Audit plan. This is the mid year report for 2014/15 (Appendix 1). It includes a report on Suspected Financial Irregularities (Appendix 2) and a report on the follow-up of high risk recommendations that are part implemented/in progress/planned or not implemented (Appendix 3).
- 2.2 Overall 48% of the plan has been completed at mid year exceeding the 45% target. This includes 100% of the planned work on the Authority's core financial systems; the 2013/14 annual review of governance and preparation of the Annual Governance Statement along with the 2013/14 management assurance exercise; review and co-ordination of the Corporate Risk Register for quarters 1 and 2; investigation of suspected financial irregularities; provision of professional advice on control and risk management and follow-ups. All assurance ratings at follow-up have been re-assessed as green showing improvement in the control environment as a result of internal audit work.
- 2.3 In the first quarter of every financial year the work of the Internal Audit team concentrates on the authority's core financial systems. The systems are reviewed on a 3 year risk based cycle. Three of the 9 systems were reviewed in the first quarter of 2014/15 and control self-assessments were completed for the other 6 systems. In addition, to satisfy the requirements of the External Auditors, managers were asked to review and update systems documentation and Internal Audit undertook walkthrough tests to confirm the actual system in operation for all core financial systems. Out of a total of 32 controls reviewed, 21 (66%) were fully operating, 6 (19%) were substantially operating and 5 (15%) were partially operating.
- 2.4 Overall 6 (86%) of the Internal Audit performance targets have been met or exceeded. Four (57%) of the performance targets have been exceeded, 2 (29%) have been fully met and 1 target has not been met. Performance indicator 4 (target met for issue of draft report after the end of fieldwork) missed the target by 3% as 2 reports did not meet the target due Auditors being diverted to undertake an investigation which caused a delay in the issue of the reports.
- 2.5 2 of the 3 Corporate Audit Indicators have not been met although both show considerable improvement since last reported.

Section 3 – Further Information

- 3.1 The next report on the performance of the Internal Audit team will be the 2014/15 Year-End Report to be submitted to GARM Committee in July 2015.

Section 4 – Financial Implications

4.1 There are no financial implications to this report.

Section 5 - Equalities implications

5.1 There are no equalities implications.

Section 6 – Corporate Priorities

6.1 Internal Audit contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Name: Simon George



Chief Financial Officer

Date: 10/11/14

Section 7 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit, Tel: 0208 424 1420

Background Papers: None

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1. Table 1 below details the follow ups completed in Q1/Q2 of 2014/15 with the original assurance rating and the re-assessed assurance rating. All assurance ratings at follow-up have been re-assessed as green showing improvement in the control environment as a result of internal audit work.

Table 1 – Follow Ups completed in Q1&2 of 2014/15

| Review (2013/14 Plan) | Audit Coverage | Original Assurance Rating | Re-assessed Assurance Rating |
|---|---|---------------------------|------------------------------|
| Corporate Accounts Payable | Review of key controls | AMBER | GREEN |
| St John Fisher Governance & Financial Controls | Covering the adequacy, application and effectiveness of financial controls and governance procedures in place | AMBER | GREEN |
| Hillview Nursery Governance & Financial Controls | Covering the adequacy, application and effectiveness of financial controls and governance procedures in place | RED | GREEN |
| Disabled Adaptations | Review of governance arrangements | AMBER | GREEN |
| RetrEat | Review the cash handling process of the Council RetrEat Café and the trolley service | RED | GREEN |
| Arboricultural Services | Review that there are appropriate processes in place to manage the works undertaken on the boroughs trees | RED | AMBER |
| Belmont Primary Governance & Financial Controls | Covering the adequacy, application and effectiveness of financial controls and governance procedures in place | AMBER | GREEN |
| Kenmore Park Infant & Nursery Governance & Financial Controls | Covering the adequacy, application and effectiveness of financial controls and governance procedures in place | AMBER | GREEN |
| Shaftesbury Governance & Financial Controls | Covering the adequacy, application and effectiveness of financial controls and governance procedures in place | AMBER | GREEN |

2014/15 INTERNAL AUDIT MID-YEAR REPORT

APPENDIX 1

| Review (2013/14 Plan) | Audit Coverage | Original Assurance Rating | Re-assessed Assurance Rating |
|---|---|---------------------------|------------------------------|
| St Georges Governance & Financial Controls | Covering the adequacy, application and effectiveness of financial controls and governance procedures in place | AMBER GREEN | GREEN |
| St Johns C of E Governance & Financial Controls | Covering the adequacy, application and effectiveness of financial controls and governance procedures in place | AMBER | GREEN |
| Welldon Park Infant & Nursery Governance & Financial Controls | Covering the adequacy, application and effectiveness of financial controls and governance procedures in place | AMBER | GREEN |
| Emergency Relief Scheme | Risk based system review to include fraud risk | AMBER | GREEN |
| Parking Enforcement – Cancellation of PCN's | Risk based system review to include fraud risk | RED | GREEN |

2. Table 2 below details all the final reports issued in Q1/Q2 of 2014/15 from the 2013/14 audit plan with the report assurance rating.

Table 2 – 2013/14 Plan Final Reports Issued in Q1&2 of 2014/15

| Review | Audit Coverage | Assurance Rating | Follow-up Due |
|------------------------|--|------------------|-----------------------|
| Data Security Breaches | To assess action taken after breaches identified to close gaps and improve processes | AMBER GREEN | January 2015 |
| Housing Benefit | A review of controls in place to prevent fraud including response to CAFT reports | AMBER | November 2014 |
| Housing Assessments | Review of the robustness of the assessments process to mitigate the risk of fraud | AMBER | January 2015 |
| Data Quality | Reviewing a sample of areas where data quality is important to establish compliance with standards | RED | Follow up in progress |

| Review | Audit Coverage | Assurance Rating | Follow-up Due |
|---|---|---------------------------|------------------------|
| Cashiers | IT System, petty cash, income and banking, separation of duties, refunds | AMBER GREEN | March 2015 |
| Finance Restructure | Maintenance of Key Controls (after restructure) | AMBER GREEN | January 2015 |
| Pensions | Risk based system review to include fraud risk | GREEN | Follow up not required |
| Property Maintenance – Cyclical Maintenance | Review frequency and quality of cyclical maintenance and assess implications for Health and Safety. | AMBER | February 2015 |

3. Table 3 below details the completed assurance report reviews issued in Q1/Q2 of 2014/15 from the 2014/15 Plan and the assurance rating.

Table 3 – 2014/15 Plan Completed Assurance Report Reviews in Q1/Q2 of 2014/15

| Plan 14/15 Assurance Reviews | Audit Coverage | ASSURANCE RATING | Comment |
|------------------------------|---|---------------------------|------------------------|
| Business Rates | Key Control Review, systems notes | GREEN | Follow up not required |
| Housing Benefit | Key Control Review, systems notes | GREEN | Follow up not required |
| Capital Expenditure | Key Control Review, systems notes | AMBER | Follow up not yet due |
| Insurance claims | Controls in place to prevent fraud/use of claims handlers | AMBER GREEN | Report in draft |

4. Table 4 below details the completed assurance non report reviews undertaken in Q1/Q2 of 2014/15 from the 2014/15 Plan.

Table 4 – 2014/15 Plan Completed Assurance Non Report Reviews in Q1/Q2 of 2014/15

| Review | Audit Coverage | Comments |
|---|--|-----------------------|
| Payroll | System notes, walkthrough. CRSA | Complete |
| Treasury | System notes, walkthrough. CRSA | Complete |
| Council Tax | System notes, walkthrough. CRSA | Complete |
| Housing Rents | System notes, walkthrough. CRSA | Complete |
| Corporate Accounts Payable | System notes, walkthrough. CRSA | Complete |
| Corporate Accounts Receivable | System notes, walkthrough. CRSA | Complete |
| Corporate Governance | Annual governance review, drafting AGS, AGS Action Plan | Complete to end of Q2 |
| Management Assurance | Completion of 2013/14 exercise & development of 2014/15 exercise | Complete to end of Q2 |
| Risk Management | Maintenance and update of Corporate Risk Registers | Complete to end of Q2 |
| Information Governance Board (IGB) | To ensure that the Council has effective polices & management arrangements covering Information governance | Complete to end of Q2 |
| Financial Regulations review/update (not in draft) | To feed into the current review of Financial Regulations | Complete |
| Contract Procedure Rules review/update (not in draft) | To feed into the current review of Contract Procedure Rules | Complete |
| Families First (Troubled Families Grant) | Grant certification | Complete |
| Carbon Reduction Commitment | Audit review and sign-off of CRC Annual Report | Complete |
| Suspected Financial Irregularities + Control Reviews | Guidance to managers on investigations and the undertaking of investigations | Complete to end of Q2 |
| Professional Advice | Advice on risk mitigation & control | Complete to end of Q2 |
| Follow-up | Red, Red/Amber & Amber reports followed-up | Complete to end of Q2 |
| Liaison with External Audit | On-going liaison throughout the year | Complete to end of Q2 |
| Audit Management | e.g. planning, GARM reporting | Complete to end of Q2 |

5. Table 5 below details the reviews currently in progress for 2014/15 from the 2014/15 Plan.

Table 5 – 2014/15 Plan Assurance Reviews in progress in Q1/Q2 of 2014/15

| Review | Audit Coverage |
|--|---|
| Compliance Testing | Register of interests and Fees & Charges; |
| Access Control – Network/SAP/EMS/SIMS/CITRIX Remote Access | Set up and removal, parameters, password configuration, reset frequency. |
| Public Health IT Compliance Draft Plan | Ensuring compliance with IT requirements |
| Fighting Fraud Checklist for Governance | Completion and analysis of checklist to feed into Annual Governance review |
| Procurement | Assessing risk of procurement fraud and preventative controls in place. |
| Right to Buy | A review of controls in place to prevent fraud |
| Council Tax Discounts | A review of controls in place to prevent fraud |
| Business Continuity/IT Disaster Recovery (c/f 2013/14) | Covering adequacy and effectiveness of controls over the arrangements that are in place for the prevention of system downtime through adequate resilience |
| EE Restructure – maintenance of key controls (c/f 2013/14) | Maintenance of key controls within Directorate and to ensure appropriate controls in place for Licensing |
| School HR Policies | Check that appropriate HR Policies are adopted by schools |
| Public Health Visiting Transfer | To provide professional advice on control and risk mitigation |

6. Table 6 below details the assurance reviews which are yet to be started for 2014/15 from the 2014/15 Plan.

Table 6 – 2014/15 Plan Assurance Reviews yet to be started

| Review | Audit Coverage | Comments/Planned |
|--|---|--------------------|
| Procure to Pay | To provide ongoing risk and control advice | No longer required |
| E-invoicing | To provide professional advice on control and risk mitigation | Q3/Q4 |
| Legal Services Company | To provide professional advice on control and risk mitigation | Q3/Q4 |
| IWorld/Northgate Housing Benefit – Operating System Review (c/f 2013/14) | To assess the control process built within Northgate Housing Benefits System including the localised CT Benefit module and the cloud based Harrow Emergency Scheme | Q3 |
| IT Data Centre - Landlord Risks (c/f 2013/14) | Covering environmental controls and security | Q3 |
| IT Change Management (c/f 2013/14) | Review of system in place to manage IT change | Q3 |
| Freedom of Information | Review of the policy and process employed by the Council for dealing with FOI requests to ensure appropriate and proportionate. Possible joint review with Lean Team. | Q3 |
| Leaseholder Charges | Risk based system review | Q4 |
| My Community E Purse | Health check requested by management | Q4 |
| Schools Expansion Programme | Programme Management/Procurement | Q3 |
| Highways Contract | Contract Management review | Q4 |
| Financial Control & Governance Reviews | A four year programme of school reviews covering the adequacy, application and effectiveness of financial controls and governance procedures in place | Q3/Q4 |
| School Governor Governance Training | Training session to be presented at the C&F Heads & Directors meeting + evening Governor training session | Q3 |
| SIMS Personnel | Review of controls to ensure robust | Q4 |

Performance Indicators

7. Table 7 below outlines the seven Internal Audit indicators agreed for the year, including the key indicator covering achievement of the IA annual plan and table 8 the three corporate audit indicators and the results achieved. These indicators cover performance on projects from the 2013/14 plan and the 2014/15 plan issued in the first half of the year (i.e. up to 30/09/14).

Table 7 – Internal Audit Performance Indicator Results

| | Performance Indicator | Target | Mid Year Result |
|---|---|---------------|------------------------|
| 1 | Recommendations agreed for implementation | 95% | 99% |
| 2 | Final reports issued on / ahead of time | 85% | 91% |
| 3 | Projects completed within budgeted time allowance | 85% | 89% |
| 4 | Target met for issue of draft report after end of fieldwork | 85% | 82% |
| 5 | Follow up undertaken | 100% | 100% |
| 6 | Plan achieved for key control reviews | 100% | 100% |
| 7 | Plan achieved overall (key indicator) | 45% | 48% |

Analysis of Results

8. Overall 6 (86%) of the performance targets have been met or exceeded. Four (57%) of the performance targets have been exceeded, 2 (29%) have been fully met and 1 target has not been met. Performance indicator 4 (target met for issue of draft report after the end of fieldwork) missed the target by 3% as 2 reports did not meet the target due Auditors being diverted to undertake an investigation which caused a delay in the issue of the reports.

Table 8 – Corporate Audit Indicators Results

| Performance Indicator | Target | Mid Year Result |
|---|--------|--------------------------|
| 1 Implementation of recommendations | 90% | 64% (expected to be 93%) |
| 2 Auditee response times to draft report within 4 weeks | 80% | 73% |
| 3 Auditee response times to follow ups within 4 weeks | 80% | 78% |

Analysis of Results

9. The result for performance indicator 1 shows that whilst only 64% of recommendations had been implemented at the time of follow-up a further 29% were planned for implementation giving an expected implementation rate of 93% exceeding the 90% target.
10. The result reported in the 2013/14 year end report for auditee response times to draft reports was 53%; therefore the mid year result for 2014/15 (whilst not meeting the target) has shown an improvement of 20%.
11. For the auditee response time to follow ups indicator, the result reported in the 2013/14 year end report was 62%; therefore the mid year result for 2014/15 has shown an increase of 16%.

Susan Dixon
 Head of Internal Audit
 07/11/14

IRREGULARITY INVESTIGATIONS REPORT 2014/15

1. During the first 6 months of the year, 4 cases of potential irregularity were reported to Internal Audit; only one of these is considered significant and is outlined in paragraph 2. There are a further 2 significant irregularities from 2013/14 which are outlined in paragraph 3.

Significant SFI's

2. **15 Overpayments of Salary £34,733.46:** These overpayments were not fraudulent in nature and the majority can be attributed to a lack of communication between management, HR and Payroll regarding changes in hours, staff leaving; overtime keyed incorrectly; incorrect sick pay; payments to incorrect employee or inputting errors. The overpayments were identified either by payroll staff, the employee concerned or management. Wherever possible these overpayments have been or will be recovered via the payroll system. It is anticipated that the majority of overpayments will be recovered. The percentage of overpayments recovered as at October 2014 was 24%. As there were 24 similar overpayments (£38,930.25) up until the end of September 2013 this represents an decrease in the number and value of overpayments in the first half of the year.
3. **Schools:** Following whistleblowing allegations an audit investigation was undertaken into 2 schools highlighting finance and governance irregularities. Both schools were issued with red assurance reports and action has been concluded against one Headteacher under the disciplinary procedure and is in progress against the other Headteacher.

Susan Dixon
Head of Internal Audit
7th November 2014

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FOLLOW UP OF HIGH RISK RECOMMENDATIONS PART IMPLEMENTED/IN PROGRESS/PLANNED OR NOT IMPLEMENTED

| Review | Recommendation | Agreed Action | Relevant Dates Implementation | Follow up Response | Details |
|--|---|--|---|---|--------------------------------------|
| St Georges School Governance & Finance | If the Finance Committee is to continue to operate it needs to work with the Head Teacher to: • Form an annual budget and three year fiscal plan for approval of the Governing Body. Monitor the budget and authorise virements. Review all major contracts. • Advise the Governing Body on the financial implications in accordance with the Committee's Terms of Reference. The Finance Committee should continue to meet every term in order to fulfil their job responsibilities.However if the Finance Committee is not to operate then the Governing Body should carry out all the relevant Finance Committee duties. All meetings should be fully minuted. | The Governing Body will continue to delegate the general decision making to the Finance Committee. The membership of the Finance Committee will be increased to 7 Governors (including the Headteacher and Chair of Governors). The Finance Committee will meet a minimum of once each term (3 meetings a year). | Date: 11 March 2014 Follow up: September 2014 | Finance committee Terms of Reference and appointments will be agreed at first FGB meeting of the academic year to be held 25 Sept 2014. | Further follow up due December 2014. |
| St Georges School Governance & Finance | A Terms of Reference should be created defining the responsibilities of the Governing Body. Once documented, approval should be clearly shown in minutes and the document should be updated and reviewed annually. | Whilst it is not a statutory obligation the Governing Body will draft and establish TOR for the full GB. | Implementation Date: 11 March 2014 Follow up: September 2014 | To be agreed at FGB Meeting scheduled for 25 September 2014. | Further follow up due December 2014. |
| St John's School Governance & Finance | When existing delegations are updated they should include correct titles and authorising values including the authorising of purchase card payments and BACS files | Delegations to be further updated re purchase card and BACS. | Implementation Date: 3 March 2014 Follow up: September 2014 | Delegations amended and to be agreed at GB meeting 23 September 2014 | Further follow up due January 2015. |

APPENDIX 3

| Review | Recommendation | Agreed Action | Relevant Dates | Follow up Response | Details |
|--|---|---|---|--|--|
| St John's School Governance & Finance | The school should ensure that before they pay an individual for work carried out at the school, they should check whether the employee should be paid directly through the payroll (this can be done by contacting the school's payroll department), if payment by an invoice is appropriate, it should contain the following information • The school address • An appropriate tax reference number to demonstrate self employment • The National Insurance number of the individual • A printed payee address | All individuals who carry out work in school to provide :- • The school address, • An appropriate tax reference number to demonstrate self employment, • The National Insurance number of the individual • A printed payee address on all invoices. If not to be paid through payroll | Implementation Date: 3 March 2014 Follow up: September 2014 | All individuals who carry our work in school provide all the details as stated aside. | Of the examples provided to Internal Audit, one of the invoices did not have a tax number or a national insurance number. Further follow up due January 2015. |
| Welldon Park Infant Nursery Governance & Finance | School staff should monitor the predicted year-end outturn position against the budgeted year-end projection so that variances can be reported to the Governing Body. The school should inform the Governing Body of the predicted outturn figure calculated by the FMS team as this would give the Governing Body time to consider the reasons this has varied from the budget projection figure and the options of how these balances can best be used. | We will ensure that this is shown to and discussed with the GB. | Implementation Date: February 2014 Follow up: September 2014 | The next visit from FMS that will give us projected carry forward is anticipated to be in November. This will be taken to the next GB meeting. | Further follow up due January 2015. |

Note: All high risk recommendation made during the first half of the year were agreed.