

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

7 MARCH 2012

## COUNTER FRAUD AND ASSOCIATED MATTERS

## Report of the Head of Internal Audit

**Discussion of Appendices 1 and 2 to this report are likely to include exempt information of the description in paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government [Access to Information] [variation] Order 2006**

**1.0 PURPOSE OF THE REPORT**

- 1.1 To report on the number and type of investigations undertaken by Veritau Limited during 2012/13 to date.
- 1.2 To consider the Annual Fraud and Loss Risk Assessment for the County Council.

**2.0 BACKGROUND**

- 2.1 In the current economic climate, all organisations are at increasing risk of fraud and corruption. Experience has shown that it is even more important for organisations to be vigilant about the risks of fraud during times of economic hardship. In its latest report, published in March 2012, the National Fraud Authority (NFA) estimated that fraud currently costs the UK in the region of £73 billion a year. Fraud against the public sector is estimated to account for approximately 28% of the total with estimated losses of £20.3 billion, of which £2.2 billion relates to local government. The main types of local government fraud continue to be housing tenancy and council tax, procurement, recruitment and payroll, blue badge abuse, grant related and pension fraud.
- 2.2 Changes in the way in which public services are being delivered mean that the risk profile for fraud is also changing. The increased arm's length delivery of services by private sector, voluntary and not-for-profit organisations as well as greater use of personal budgets for social care mean that fraud is more difficult to prevent and identify. New legislation and changes in government policy may also increase the risk of fraud to the County Council. The Welfare Reform Act will introduce universal credits in place of a number of existing benefits and, from 1 April 2013, responsibility for administering the social fund (welfare assistance) will transfer to upper tier local authorities. In addition, local authorities will be responsible for establishing individual local council tax support schemes in place of council tax benefits and will be entitled to retain half of locally raised business rate revenues. There will therefore be an increased financial incentive for councils to work together to minimise overall fraud losses.

2.3 Fraudsters are also better organised and technically capable. In October 2011, the NFA published *Fighting Fraud Together*, a strategic plan for organisations involved in combating fraud. The plan recognised that the police, government departments, local authorities, private sector organisations and other agencies are most effective when they work collaboratively across sectors, sharing intelligence, information and good practice. The plan involves delivering three strategic objectives – improved awareness of fraud risks, stronger systems and controls to prevent fraud and more efficient and effective enforcement. A detailed strategy for local authorities, called *Fighting Fraud Locally*, was published in April 2012. The strategy recommended the adoption of a tougher approach to tackling fraud with counter fraud activities organised around three themes – acknowledge, prevent and pursue, as follows:

**Acknowledge** – acknowledging and understanding fraud risks

- Assessing and understanding fraud risks
- Committing support and resources to tackling fraud
- Maintaining a robust anti-fraud response

**Prevent** – preventing and detecting more fraud

- Making better use of information and technology
- Enhancing fraud controls and processes
- Developing a more effective anti-fraud culture

**Pursue** – being stronger in punishing fraud and recovering losses

- Prioritising fraud recovery and the use of civil sanctions
- Developing capability and capacity to punish fraudsters
- Collaborating across local authorities and with law enforcement

2.4 In November 2012, the Audit Commission published its latest annual fraud report *Protecting the Public Purse: Fighting Fraud Against Local Government*. The Audit Commission reported that Councils are targeting their investigative resources more efficiently and effectively. Across local government a total of 124,000 cases of fraud were detected during the year, with a value of £179m. The report included a number of recommendations which are intended to help councils in combating fraud. The reports also highlighted a number of new and emerging fraud risks, including local welfare assistance, school related fraud and mandate fraud.

2.5 Whilst the County Council has a good record in maintaining standards of probity and propriety, it is essential that its arrangements for reducing the risk of loss from fraud and corruption remain effective. As a consequence the Counter Fraud Strategy, and the associated Money Laundering Policy and Whistleblowing Policies are kept under review, and updated as required. In addition, Veritau has been involved in a number of initiatives during 2012/13 designed to prevent and detect possible fraud.

### 3.0 THE COUNTER FRAUD POLICY FRAMEWORK

#### Background

3.1 The Counter Fraud Policy Framework includes the Counter Fraud Strategy, the Whistleblowing Policies and the Anti Money Laundering Policy. All three documents have been fully updated in the last three years to reflect legislative requirements and developments in best practice. They have also been reviewed in light of *Fighting Fraud Together* and *Fighting Fraud Locally*. It is considered that no further amendments are required at the present time.

### 4.0 INVESTIGATIONS UNDERTAKEN IN 2012/13

4.1 Concerns and allegations of possible fraudulent or corrupt working practices are raised with Veritau via the whistleblowing arrangements or directly by County Council management and staff. Not all investigations result in sufficient evidence being obtained to support the allegations whilst other concerns prove to be unfounded. However, where evidence is found of fraud or wrongdoing, the following factors are often relevant:

- the need for managers and staff to remain alert to the risk of fraud and to question unusual transactions or patterns of behaviour;
- the need for staff to protect physical and information assets;
- the importance of sharing information about possible fraud risks with other councils and/or with other agencies;
- the importance of pro-active counter fraud measures to prevent and detect fraud;
- the need for managers and staff to report concerns to Veritau at the earliest opportunity.

4.2 **Appendix 1** provides a summary of the number and type of investigations undertaken by Veritau during 2012/13 to date.

### 5.0 FRAUD AND LOSS RISK ASSESSMENT

5.1 Since 2006/07, Internal Audit has completed an annual Fraud and Loss Risk Assessment, designed to identify the activities and areas within the County Council, which present the greatest risk of loss. This Risk Assessment is informed by the history of events and losses suffered by the County Council together with the results of recent investigations into suspected fraud, corruption and other irregularities. National issues and trends are also taken into account. The results of the Assessment are used by:

- management to develop or strengthen existing fraud prevention and detection measures
- Veritau to further revise the Counter Fraud Policy Framework
- Veritau to focus future audit and counter fraud work (as set out in the Annual Audit Plan)

5.2 **Appendix 2** provides the outcomes of the 2012/13 Annual Fraud and Loss Risk Assessment exercise.

6.0 **RECOMMENDATIONS**

6.1 Members are asked to note the investigations carried out by Veritau in 2012/13, to date, and the outcome of the annual Fraud and Loss Risk Assessment.

M A THOMAS  
Head of Internal Audit

**BACKGROUND DOCUMENTS**

Relevant audit reports kept by Veritau Ltd at 50, South Parade  
Contact Roman Pronyszyn, extension 2284

Report prepared and presented by Max Thomas, Head of Internal Audit.

County Hall  
Northallerton

7 February 2013