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**REVIEW OF ANTI-FRAUD AND CORRUPTION ARRANGEMENTS**

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**SUMMARY REPORT**

**Purpose of the Report**

1. To review the outcomes from the Council's corporate anti-fraud and corruption arrangements. A separate report specifically on the work of the Housing Benefits Enquiry Unit for the financial year 2010/11 is to be presented to the June 2011 Audit Committee.

**Summary**

2. The report confirms progress on the implementation of improvement actions resulting from a review of anti fraud and corruption arrangements reported to the December 2009 Audit Committee (Minute A28/18 Dec/09) and positive responses to the updated fraud self assessment checklist documented in the 2010 Audit Commission publication 'Protecting the Public Purse'.
3. The recently released CIPFA Better Governance Forum's Fraud Risk Evaluation Diagnostic 1 (FRED1) is to be used prior to the financial year end to evaluate the Council's counter fraud arrangements to help inform the Annual Governance Statement and the 2011/12 Audit Plan.
4. The National Fraud Initiative (NFI) 2010 has commenced with requisite data extracts submitted in October 2010, fair consultation being undertaken with data subjects and housekeeping carried out on the secure website.
5. Overall the number of reported frauds remains low but the year has seen an increase in the number of whistle blowing cases received.
6. It is concluded that the Council's anti fraud and corruption arrangements remain appropriate and fit for purpose when compared to national good practice guidance. However, the Council is not complacent and the position will be kept under review.

**Recommendation**

7. It is recommended that the content of the report be noted.

**Reasons**

8. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements

**Paul Wildsmith**  
**Director of Corporate Services**

**Background Papers**

- (i) Anti Fraud and Corruption Strategy
- (ii) Anti Fraud and Corruption Policy
- (iii) Fraud Response Plan
- (iv) Anti Money Laundering Policy
- (v) 'Protecting the Public Purse 2010 – Audit Commission
- (vi) Self assessment document – Tackling Tenancy misuse and unlawful Subletting'
- (vii) National Fraud Strategy
- (viii) Fraud Risk Evaluation Diagnostic1 (FRED1)

Dawn Barron: Extension 2141

S17 Crime and Disorder	Other than the reported frauds there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	Diversity issues raised in the report are to be further investigated.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

## MAIN REPORT

### Information and Analysis

#### Background

9. The Council's Anti Fraud and Corruption arrangements are subject to annual review to ensure that they remain appropriate. The last review was considered by this Committee in December 2009 (Minute A28/18Dec/09). This review included the completion of a checklist for those responsible for governance from the Audit Commission's 'Protecting the Public Purse' publication. The checklist depicted a generally positive position on arrangements but two areas were identified for further work, namely personal budgets and social housing allocation, where action was required and is ongoing.
10. The checklist itself has been enhanced following the issue of the 2010 'Protecting the Public Purse' document by the Audit Commission in 2010 (see paragraph 14). Additional questions have been included that are underlined in bold in **Appendix A**. There are no actions arising from these additional questions that require attention.
11. In order to keep abreast of topical issues a member of staff from Audit Services has attended an informative workshop on 'Scams Bribery & Corruption' organised by the CIPFA Better Governance Forum.
12. The content of the PwC Fraud Academy website has been regularly monitored and contributed to in order to share good practice and to keep informed on current issues.
13. The work of the National Fraud Authority (NFA), an executive agency of the Attorney General's Office established in October 2008, has also been monitored. The NFA has begun initial work with private and public sector bodies to further develop a national counter fraud culture, which the Council is to participate in as necessary.
14. In addition, the Audit Commission's Annual Fraud Survey, which became a statutory requirement for local authorities in 2010, was completed and submitted online in accordance with Commission deadlines of June 2010. The overall results from this national survey were detailed in the 'Protecting the Public Purse' publication 2010. The publication outlined that fraud continued to be a significant problem affecting the whole economy and that detected fraud losses in local government were low compared with total council spending.

#### Enhancements to Anti Fraud and Corruption Arrangements

15. Enhancements to the arrangements covered in a report to the December 2009 Audit Committee have been addressed/implemented as follows:-
  - (a) The establishment of formal fraud performance measures continues to be kept under review following further discussions with PricewaterhouseCoopers to explore how this area should best be progressed given that it remains good practice.
  - (b) Progress has been made on drafting a Council Fraud Risk Register following workshops attended by senior managers from across the Council facilitated by

assistance from PwC. Once departmental restructuring has taken place it is the intention to finalise this document.

- (c) A second edition of the newsletter 'Fraud Matters' has been produced in draft and covers the requirements of the Bribery Act 2010. It is to be circulated to employees early in 2011.
  - (d) Fraud Hotline multi lingual capacity and the wider cultural issues around the reporting of fraud have been explored with representatives from the voluntary sector and council staff including the Head of Connecting with Communities. The view was to include a standard sentence on future fraud publicity translated into the seven foreign languages in use in the borough advising that frauds may be reported in a mother tongue for subsequent translation. This point is to be progressed with the Council's contracted translation service.
16. The Fraud Risk Evaluation Diagnostic 1 (FRED1) is to be completed prior to the financial year end to evaluate the Council's counter fraud arrangements to help inform the Annual Governance Statement and the 2011/12 Audit Plan. This risk assessment tool released in 2010 is taken from the CIPFA Better Governance Forum Managing the Risk of Fraud Red Book 2 publication that was used in 2009 to assess Darlington's fraud arrangements. FRED1 is an electronic excel format and provides a red, amber, green assessment for pre-populated fraud risk areas, identifies critical points and gives an overall counter fraud risk rating.
17. Previous reviews of anti fraud and corruption arrangements have referred to progress with development and implementation of the Learning Management Software (CLMS) that includes content on anti fraud and corruption arrangements. CLMS is now scheduled to be implemented on a phased basis to coincide with implementation of the revised Departmental structures in early 2011.

### **Reported Suspected Frauds and Whistle Blowing Cases**

18. Potential frauds that have been notified to Audit Services by Departments during 2010, in accordance with the requirements of the Council's Financial Procedure Rules, together with a relevant commentary are shown in **Appendix B**. The potential frauds were identified through management controls or audit work and where necessary improvements to systems have been implemented. Overall the number reported remains low.
19. A total of ten whistle blowing cases were also received during the year and were dealt with in accordance with the Council's Confidential Reporting Policy. This was a significant increase from the previous year and may reflect the current economic climate and a greater desire to disclose given the Council's publicised budget pressures. Many of the cases were reported anonymously. Four related to other authorities or agencies and were referred on to them to investigate. Investigations in two cases identified no evidence to support the allegations. Two cases led to action under the Council's disciplinary procedure. One case resulted in improved working practices and one case is still under investigation. Again, where necessary, following investigations system improvements have been implemented.

## **National Fraud Initiative (NFI)**

20. NFI 2010 has commenced with requisite data extracts submitted via the secure website in October 2010 to accord with Audit Commission timescales; consultation with employee organisations carried out via the Joint Consultative Committee; awareness raising through various articles to appear in Council internal and external publications; and housekeeping carried out to enable continued access for authorised users on the NFI website. Output on the potential data matches is due in late January/ February 2011.

## **Conclusion**

21. It is concluded that the Council's anti fraud and corruption arrangements remain appropriate and fit for purpose when compared to national good practice guidance. However, the Council is not complacent and the position will be kept under review. Overall the number of reported frauds remains low but the year has seen an increase in the number of whistle blowing cases received.

## **Outcome of Consultation**

22. There was no formal consultation undertaken in production of this report.

**Checklist for those responsible for governance from 'Protecting the Public Purse' Audit Commission publication**

To ensure the council has sound governance and counter-fraud arrangements that are working as intended.

**Yes:** indicating that the area, factor, or consideration is in place together with supporting sample evidence

**No:** indicating that the area, factor, or consideration is not in place together with a note associated with it that describes the action plan for bringing it to Yes

**2010 updates are underlined in bold**

	<b>GENERAL</b>	<b>Yes</b>	<b>No</b>	<b>Sample Evidence</b>	<b>Action 2009</b>	<b>2010 Update</b>	<b>Officer Responsible &amp; Time Scale</b>
1.	Have we committed ourselves to zero tolerance against fraud?	✓		Defined in Anti Fraud and Corruption Strategy Anti Fraud and Corruption Policy Fraud Response Plan Money Laundering Policy			
2	Do we have appropriate strategies, policies and plans?	✓		See 1 above			
3	Do we have dedicated counter-fraud resources?	✓		See 4 below			
4	Do the resources cover all of the activities of our organisation?	✓		Housing Benefit fraud investigation team. Counter fraud included in work of Audit Services			
5	Do we receive regular reports on fraud risks, plans and outcomes?	✓		Audit Committee receives regular reports including annual report on review of anti fraud & corruption arrangements			
6	Have we assessed our management of counter-	✓		Various professional			

	fraud resources against good practice?			publications e.g. Red Book II, 'Managing the risk of Business Fraud: A Practical guide', 'Protecting the Public Purse', National Fraud Strategy			
7	Do we raise awareness of fraud risks: New staff (including agency); Existing staff; Elected Members; and <b><u>Our Contractors</u></b>	✓		Induction process Various articles/Fraud newsletter/CLMS Team briefings Intranet Standard terms & conditions in contract documentation covering fraud & corruption, collusion, whistle blowing			
8	Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?	✓		North East Fraud Forum/National Anti Fraud Network/Better Governance Forum/CIPFA regional networks			
9	Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?	✓		See 8 above TisOnline PwC Fraud Academy website			
10	Do we identify areas where internal controls may not be performing as intended?	✓		Internal Audit work External Audit Inspectorate reports			
11	Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on outcomes?	✓		Reports to Audit Committee External Audit positive (green) assessment of NFI 2008			
12	Do we have arrangements in place that encourage staff to raise their concerns about money laundering?	✓		Induction process Reporting form & guidance on the intranet, team briefings, newsletter			
13	<b><u>Do we have effective whistleblowing arrangements?</u></b>	✓		Dedicated hotline services available, advertised and			



				used Number of cases reported			
14	<b><u>Do we have effective fidelity insurance arrangements?</u></b>	✓		Policy document Arrangements and cover reviewed at renewal			
	<b>FIGHTING FRAUD IN THE POST RECESSION ENVIRONMENT</b>						
15	Have we reassessed our fraud risks in the light of the current financial climate?	✓		Risk Register amended Risk Workshops			
16	Have we amended our counter-fraud action plan as a result?	✓		Increased audit work carried out on risk areas i.e. expenses, income etc. Housing Benefit visiting regime modified to include national minimum wage, local housing allowance (on risk basis), relook at job seeker allowance			
17	Have we reallocated staffing as a result?	✓		Housing Benefit Fraud team resources reviewed and considered adequate. Audit Services resources kept under review in the light of the number of cases to investigate.			
	<b>CURRENT RISKS AND ISSUES</b>						
	<b>Housing Tenancy</b>						
18	Do we take effective action to ensure that social housing is allocated only to those who are eligible?	✓		Choice Based Letting procedure in place i.e. standard application & allocation criteria and priority banding, ID, address and right to work checks etc, double check on information at point of offer, monitoring by homeless team,			

19	Do we ensure that social housing is occupied by those to whom it is allocated?	Partial	Addressed via NFI no issues identified Reactive measures in place. Visit during first month of tenancy	Currently exploring establishing a tenancy audit regime as part of good landlord responsibilities	Self Assessment: - Tackling tenancy misuse and unlawful subletting completed in conjunction with the Housing Estates Manager to provide a baseline position for Darlington BC	Results of Pilot project to be used to assess whether given current resources tenancy audit would be worthwhile - Housing Estates Manager March 2011
	<b>Procurement</b>					
20	Are we satisfied that procurement controls are working as intended?	✓		Via internal audit work carried out by Darlington & Stockton External Audit		
21	Have we reviewed our contract letting procedures since the investigations by the OFT into cartels and compared them with best practice?	✓		Good practice guidance used to inform review of contract procedure rules and updates of associated documents		
22	Are we satisfied that our recruitment procedures are: <ul style="list-style-type: none"> <li>• Preventing employment of people working under false identities;</li> <li>• Validate employment references effectively;</li> <li>• Ensuring applicants are eligible to work in the UK; and</li> <li>• <b><u>ensure agencies supplying us with staff to undertake the checks that we require?</u></b></li> </ul>	✓		Via internal audit work carried out by Stockton & Darlington Safe recruitment procedures Contract monitoring arrangements		

	<b>Personal budgets</b>						
23	Where we are expanding the use of personal budgets for social care, in particular direct payments have we introduced appropriate safeguarding arrangements proportionate to risk and in line with recommended practice?	Partial		Work is ongoing		Joint meeting to discuss issues held between Audit Services and relevant Adult Services officers and action points agreed.	Fraud awareness to be addressed; Policy on disregarded expenditure to be drafted - Head of Adult Social Care March 2011
	<b>Council Tax</b>						
24	Are we effectively controlling the discounts and allowances we give tax payers?	✓		Discounts and exemptions are subject to a programme of rolling reviews to ensure entitlements are not exceeded Single persons reviews have also been subject to an external targeted review across the authority and also form part of the NFI			
	<b>Housing and council tax benefits</b>						
25	In tackling housing and council tax benefit fraud do we make full use of: <ul style="list-style-type: none"> <li>• the NFI;</li> <li>• Department for Work and Pensions Housing Benefit Matching Service</li> <li>• Internal data matching; and</li> <li>• Private sector data matching</li> </ul>	✓		Participation in data matching e.g. NFI HBMS Dedicated Housing Benefit Fraud team in place Follow up of referrals made by the public Visiting regime in place			

**REPORTED SUSPECTED FRAUDS**

<b>Department</b>	<b>Number of potential frauds investigated</b>	<b>Comment</b>
Community Services	4	<p>Investigation undertaken in respect of issues identified by management in relation to the administration of an imprest account at an establishment. The investigation has been concluded and has resulted in the strengthening of systems and procedures.</p> <p>A significant cash discrepancy identified during the course of an audit review. The police investigation has been concluded without any further action being taken. As part of the audit review, recommendations were made to further strengthen internal controls.</p> <p>Case of a significant cash discrepancy in Cultural Services. Employee suspended and investigation is ongoing.</p> <p>Investigation undertaken into the engagement of sub contractors. The investigation remains ongoing.</p>
Children's Services	1	Investigation undertaken into a significant banking shortfall at a primary school. The investigation proved inconclusive. However, steps have been taken to strengthen the internal reconciliation, banking and management monitoring arrangements.