

Report to the Cabinet

Report reference: C-052-2014/15
Date of meeting: 1 December 2014



Portfolio: Governance and Development Management

Subject: Restructure of the Internal Audit Unit and Creation of a Corporate Fraud Team

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) That the proposed structure for the Internal Audit and Corporate Fraud Investigation Unit with effect from 1 April 2015 as set out at Appendix 1 be approved;
- (2) That a new post of Senior Fraud Investigator be created, subject to job evaluation;
- (3) That three new posts of Fraud Investigator be created, subject to job evaluation;
- (4) That the post of Auditor (0.4FTE) be made full time;
- (5) That, in order to finance the General Fund costs of the above, a CSB Growth Bid in the sum of £58,075 for 2015/16 be added to the CSB Growth List for consideration;
- (6) That, subject to the CSB Growth Bid being agreed, the additional £41,265 required to be funded from the Housing Revenue Account (HRA) be funded from the HRA's Housing Improvements and Service Enhancements Fund;
- (7) That the existing Benefits Fraud staff continue to be located within the Resources Directorate, under the management of the Assistant Director (Benefits), until they are transferred to the Single Fraud Investigation Service from 1 October 2015; and
- (8) That it be noted that an annual saving of £134,030, arising partly in 2015/16 and partly in 2016/17, will occur following the transfer of Benefit Fraud staff to the Single Fraud Investigation Service and other consequent changes to the Benefits Division.

Executive Summary:

The National Fraud Authority, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Audit Commission have all published recommendations highlighting the importance of a corporate counter-fraud response within local authorities.

The introduction of the Single Fraud Investigation Service (SFIS) will affect councils' priorities

in tackling fraud. Because SFIS will investigate benefit fraud, councils have an opportunity to focus more resources on other frauds that have a local impact, such as housing tenancy and right to buy fraud, procurement, business rate, council tax discounts and local council tax support fraud, grant fraud and internal fraud including such areas as payroll and expenses.

The creation of a Corporate Fraud Investigation Team working closely with the enhanced Internal Audit Unit will save the Council money and enable the Chief Internal Auditor to provide a more robust audit cover, which will give a higher level of assurance in the fraud prevention and detection work within the Council and strengthen the annual governance statement.

Reasons for Proposed Decision:

A corporate fraud investigation team was included in the Directorate restructuring approved by Full Council on 17th December 2013.

Other Options for Action:

To do nothing. This would leave the Council vulnerable to financial loss due to fraudulent activity that may remain undetected.

Report:

Introduction

1. The most significant issues raised in the Audit Commission Publication “Protecting the Public Purse”, published annually, have included recommendations for the establishment of corporate counter-fraud teams. “Protecting the Public Purse 2014”, published in October 2014 states “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”.

2. The National Fraud Authority publications “Fighting Fraud Together” (2011) and “Fighting Fraud Locally” (2012), the Chartered Institute of Public Finance and Accountancy (CIPFA) document “Local Government Fraud Strategy” and the Audit Commission Publication “Protecting the Public Purse 2013” further highlight the importance of a corporate counter-fraud response.

3. A corporate fraud investigation team was included in the Directorate restructuring approved by Full Council on 17th December 2013. This will enable the council’s already robust fraud response to be further developed and directed as best needed to protect public finances.

Current Developments

4. Benefit fraud is a substantial loss to the national public purse, but has less impact on council budgets. The introduction of the Single Fraud Investigation Service (SFIS) will affect councils’ priorities in tackling fraud. Because SFIS will investigate benefit fraud, councils have an opportunity to focus more resources on other frauds that have a local impact, such as housing tenancy and right to buy fraud, procurement, specifically contract letting and bribery, business rate, council tax discounts and local council tax support fraud, grant fraud and internal fraud including such areas as payroll and expenses, which will include false sickness, job application fraud, over-claimed expenses, second job, Identity fraud, running a business from work and improper use of assets.

The implementation date for SFIS in relation to this council is 1 October 2015.

5. As part of the Directorate Restructuring a Corporate Fraud Investigation Team will be brought together under the Chief Internal Auditor as part of the Internal Audit and Fraud Investigation Unit within the Governance Directorate, with reporting lines direct to the Chief Executive.

6. The work of the team will be fraud specific, where fraud is suspected, has been referred to the team by the Directorates, through the fraud hotline or whistleblowing procedures and will not involve compliance work such as is being proposed for Council tax Discounts which will be subject to a separate report from the Assistant Director (Benefits).

7. Member reporting will be through the Corporate Governance Group to the Audit and Governance Committee who have as part of their Role and Responsibilities to:

“consider the effectiveness of the Council's Risk Management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.”

Other specific Member reporting lines will continue as present, such as for the Housing progress reports.

Current Staffing

8. The Council currently has strong anti-fraud teams within Benefits and Housing and limited anti-fraud resources within Internal Audit (one part time post of two days per week). These teams have worked in isolation within their respective Directorates although a greater level of joint working has been evident recently.

Benefits Fraud

Investigations & Interventions Manager Grade 9
Senior Investigation Officer Grade 8
Investigation Officer Grade 6 x3

9. With the implementation of SFIS in October 2015 these posts will transfer from the Council generating a saving of £174,490, less the cost of creating a Liaison Officer post within the Benefits office for managing the flow of information between the Council and SFIS. This will be subject to a separate report from the Assistant Director (Benefits).

10. Since these staff will be transferring to the SFIS just six months after the proposed Corporate Fraud Investigation Team has been formed, they will remain within the Resources Directorate, under the management of the Assistant Director (Benefits), until they are transferred.

Housing Fraud

Senior Housing Officer (Fraud) Grade 7
Housing Officer (Fraud) Grade 5

Internal Audit

Auditor Grade 7 (P/T 0.4 Full Time Equivalent (FTE))

11. Other fraud work is carried out within Internal Audit on minor investigations and the National Fraud Initiative. This work is carried out by Auditors with no specific or recent fraud training.

12. All of the Benefits Fraud staff are in scope for transfer to SFIS based on their current duties. The investigation of the Local Council Tax Reduction Scheme, Corporate Fraud, and Tenancy Fraud etc. will remain with the Council. Housing fraud is a main area of concern due to the number of cases of fraud being identified by the two existing Housing Fraud Officers. It is a case of the more they look the more they find. In order to address these issues it is proposed to restructure Internal Audit and create a Corporate Fraud Team to form a single cohesive unit as follows.

Proposed Staffing – Corporate Fraud

(Please see attached chart – Appendix 1)

Senior Fraud Investigator, Grade subject to job evaluation

Fraud Investigator, Grade subject to job evaluation

Fraud Investigator, Grade subject to job evaluation

Fraud Investigator, Grade subject to job evaluation

13. On receipt of the job evaluation results any staff at risk will be identified. At risk employees will be subject to the Council's HR policies and procedures. There is a possible redundancy estimate of £1559 subject to the job evaluation results. Benefits Fraud staff may also be at risk subject to the final SFIS arrangements being known.

14. In the last two and a half years, since the appointment of the Housing Fraud Officers 36 properties have been recovered and Investigations into Right to Buy applications has resulted in the return of 7 more properties. It is not possible to put an exact value on this work, but it has resulted in around £0.5m in Right to Buy discounts not being given (currently a maximum of £77,000 per property). Investigations into private sector housing grants has resulted in a saving in the region of £25,000.

15. It is intended that further resources will be directed at Housing fraud to support the two existing Investigators and that they will maintain close working relationships with Communities Management as at present.

Proposed Staffing – Internal Audit

(Please see attached chart – Appendix 1)

Chief Internal Auditor, Grade 11

Senior Auditor, Grade 9

Auditor, Grade 7

Auditor, Grade 7

Auditor, Grade 7

16. The existing staffing within Audit to remain with the exception of the conversion of the Auditor (part time) to full time to enable audits currently that are not reviewed unless resources are available, due to the audit plan being risk based and high risk areas being concentrated upon by the existing staff.

17. The following areas are considered medium risk and are proposed for audit review on a two yearly cycle. To cover these additional areas the addition of 0.6 FTE to the audit establishment would enable higher level of audit assurance to be given and provide a level of resilience within the team to cover sickness or vacancy lost time:

- Local Plan
- Corporate Partnerships
- Corporate Grants and External Funding
- Homelessness prevention inc. B&B
- Economic Development
- Corporate fees & charges
- Grants to voluntary organisations
- FOI/ DPA
- Health & safety
- Training & Development
- Members allowances
- Legal Services
- Grounds maintenance
- Environmental health
- Electoral services
- Email internet & telephone usage
- Voids
- Community Safety
- Museum
- licences
- Local land charges
- Flexi Time

18. It is intended that the audit and fraud teams will work closely together particularly in the identification of improvements to the Council's systems to increase fraud prevention.

Additional Costing		GF	HRA	Total
Senior Fraud Investigator	(new post)	£22,880	£22,880	£45,760
Fraud Investigator	(new post)	£14,815	£14,815	£29,630
Fraud Investigator	(existing post CNO/12)	0	£3,570	£3,570
Auditor	(from 0.4 to 1.0FTE)	£20,380	0	£20,380
	Full year effect	£58,075	£41,265	£99,340

(Note – The above costs are indicative only; the actual costs are dependent on the outcome of job evaluations).

19. As it is not possible at this time to allocate exactly how the resources will be split between the General Fund and the Housing Revenue fund, the additional Fraud Investigator posts have been allocated on a 50/50 basis. The intention is to use the current internal audit time recording system (Apace) to accurately record the split in investigatory work and charge accordingly.

20. It is proposed that the additional cost to the Housing Revenue Account is funded from the HRA's Housing Improvements and Service Enhancements Fund, if the General Fund's CSB Growth Bid is agreed.

Conclusion

21. The creation of the Corporate Fraud Investigation Team under the Chief Internal Auditor will help address the recommendations of the National Fraud Authority and the Audit Commission while building on the work currently being carried out on a Directorate basis. The

Corporate fraud Investigation Team and enhanced Internal Audit will enable the Chief Internal Auditor to provide a higher level of assurance in the fraud prevention and detection work within the Council and strengthen the annual governance statement.

Resource Implications:

The creation of a Corporate fraud Investigation Team and enhanced Internal Audit will result in two new posts being created and a part time post (0.4 FTE) being made full time. The additional costs are £58,075 for the General Fund and £41,265 for the Housing Revenue Account, totalling £99,340.

Legal and Governance Implications:

The creation of a Corporate fraud Investigation Team and enhanced Internal Audit will enable the Chief Internal Auditor to provide a higher level of assurance in the fraud prevention and detection work within the Council and strengthen the annual governance statement.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Portfolio Holder for Governance and Development Management.
Director of Governance.
Director of Communities.
Director of Resources.
Assistant Director of Resources (Benefits).

Background Papers:

Audit files and working papers, Committee minutes.

Risk Management:

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The proposals within this report will enhance both the monitoring and actions taken to address the risk of fraud to the Council, for the protection of public money.

Due Regard Record

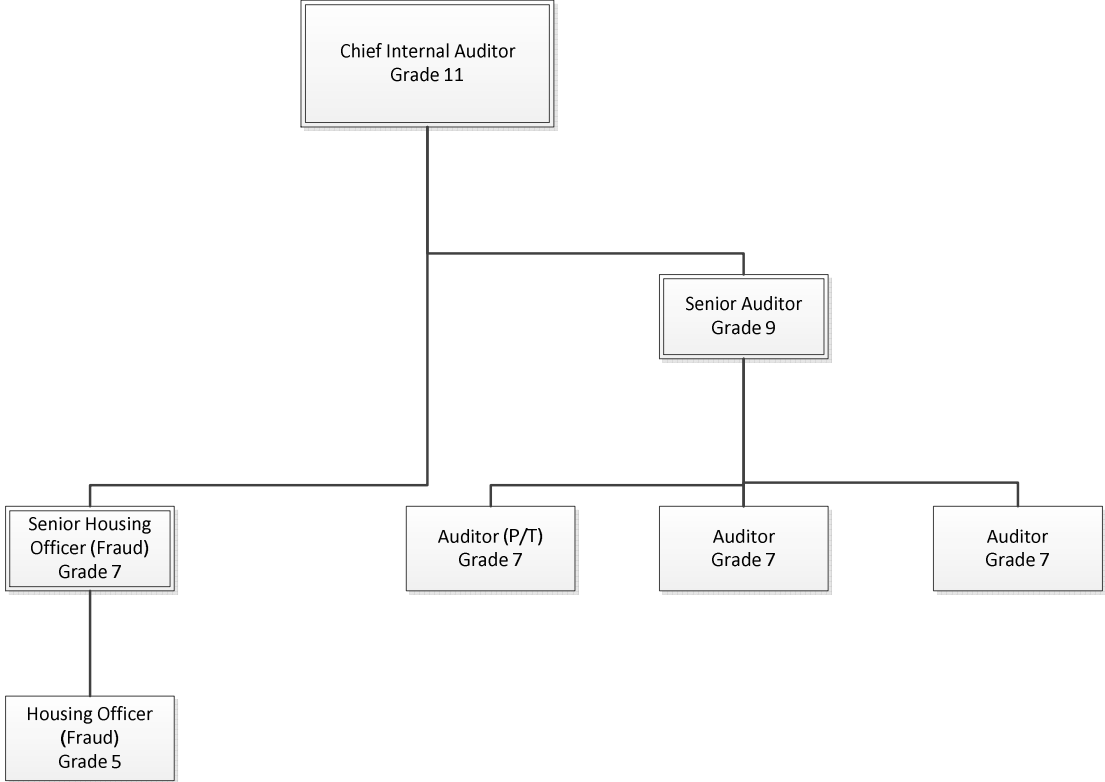
This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

The Council has approved the creation of a Corporate Fraud Investigation Team to further develop and enhance fraud prevention and detection for the protection of the public purse.

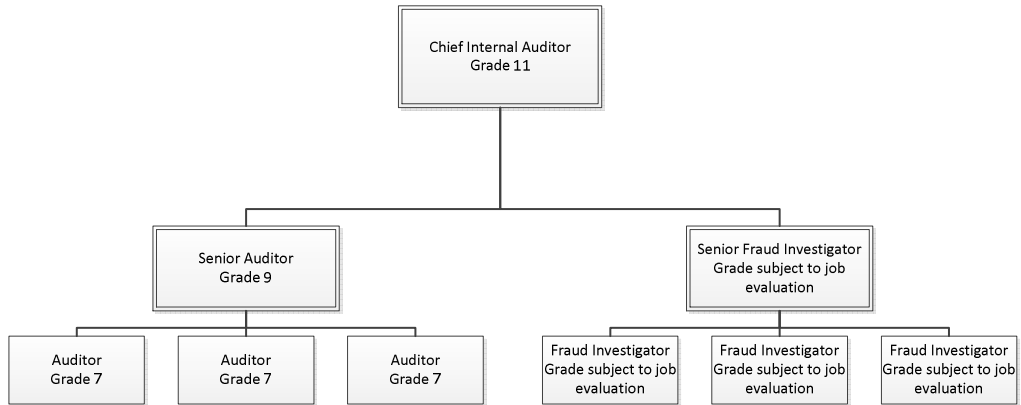
Recruitment of staff will be in accordance with Council policies and procedures.

Internal Audit Unit – Existing as at November 2014



Epping Forest District Council

Internal Audit and Corporate Fraud Investigation Unit



Proposed Staffing as at October 2014