



Audit Committee

23 September 2013

Report Title	Audit Services Management Arrangements Update	
Classification	Public	
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Cabinet Member for Resources	
Accountable Strategic Director	Keith Ireland, Delivery	
Originating service	Delivery/Audit	
Accountable officer(s)	Peter Farrow Tel Email	Head of Audit 01902 55(4460) peter.farrow@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The continued management and leadership arrangements for Internal Audit, and the further extension and development of the service to include absorbing the Benefit Fraud Investigation Team into a wider Corporate Fraud Team.

1.0 Purpose

- 1.1 To provide an update on the arrangements to continue the innovative partnership with Sandwell MBC for the role of Head of Audit and the further development of Audit Services to include taking on the management of the Council's existing Benefits Fraud Investigation Team, in order to establish a wider ranging Corporate Fraud Team.

2.0 Background

- 2.1 Councillors will be aware that as from 1 January 2012 the Council has shared the Head of Audit role with Sandwell MBC. This arrangement has worked well over the last two years, with many successful outcomes, including:

- The introduction of a new risk-based audit methodology and plan focussing upon high risk areas, taking into account the results of the recent systems thinking intervention.
- Developing the style and content of audit reports.
- Establishing a Counter Fraud Unit within Audit Services.
- Closer working relationships between Internal Audit and senior officers across the Council.
- New terms of reference for both Internal Audit and the Audit Committee.
- Developing the work of the Audit Sub-Committees.
- Supporting the Members of the Audit Committee in their continued development and training.
- The successful implementation of the recommendations made by PwC in their review on the effectiveness of internal audit.
- Sharing of skills and experience of the audit teams between the two authorities.
- Full reliance placed on the work of Internal Audit by the External Auditors.
- The development of the Audit Service in order to play a key part in the corporate aims and objectives of the Council.

The following table gives further details of the wider client base the combined Audit team now deliver a range of services for:



WEST MIDLANDS FIRE SERVICE



A shared internal audit, counter fraud and risk service

Since January 2012 Wolverhampton City Council and Sandwell MBC have entered into a unique shared service arrangement for their internal audit and related services.

The shared service has a wide and varied customer base including the two local authorities, West Midlands Fire Service, West Midlands Pension Fund, both Sandwell Leisure and Arts Trust and three recent academy converters. Our aim is to add real benefits to our customers in their key areas of governance, control and risk.

Key highlights from this unique arrangement include:

"blue chip" clients	expertise	benefits to customers
<ul style="list-style-type: none">• Wolverhampton CC• Sandwell MBC• WM Fire Service• WM Pension Fund	<ul style="list-style-type: none">• internal audit• counter fraud• investigations service• risk management• assurance mapping• partnership governance	<ul style="list-style-type: none">• innovation• wider skills pool• efficiency savings• commercial awareness• flexibility• professionalism



"A joint local professional team providing the internal audit service to a wide range of public and related organisations across the West Midlands - putting true 'localism' into practice".

For further information please contact Peter Farrow – Head of Audit, at peter.farrow@wolverhampton.gov.uk

3.0 Progress, options, discussion, etc.

- 3.1 It is now planned to extend the current arrangement for a further 3 years to 31 December 2016. It is also planned to bring the Council's Benefit Fraud Investigation Team under the Audit Services umbrella, enabling a wider counter fraud team to be established, with a corporate remit to tackle fraud across a wider range of areas than the two separate functions have at the moment. These moves will enable Audit Services to offer a suite of related services, including Internal Audit, Counter Fraud and Corporate Investigations.

3.2 Counter Fraud

One of the drivers for taking on of the Council's Benefit Fraud Investigation Team, is as a result of the Government's strategy for tackling fraud and error in welfare benefits, which has set out to create a Single Fraud Investigation Service (SFIS) to carry out the evidence and intelligence gathering and subsequent investigations of welfare benefit fraud. This is being achieved by bringing together investigation staff from Local Authorities, Department for Work and Pensions (DWP) and Her Majesties Revenues and Customs (HMRC) into a single service. The exact arrangements behind this have yet to be defined by the DWP.

Currently the Benefit Fraud Investigation Team is charged with the investigation of Housing Benefit (HB), Council Tax Reduction (CTR) and historic Council Tax Benefit (CTB) along with certain associated national welfare benefits and was established a number of years ago. HB is being replaced within Universal Credit (administered centrally) for working age claimants, whilst CTB has been replaced by a scheme being run locally called Council Tax Reduction.

This proposal would enable one combined counter fraud team to be established, with the ability to retain focus and co-ordinate resources in high risk/profile areas, in line with the wider fraud agenda as identified by the National Fraud Authority, Audit Commission and CIPFA whilst also investigating welfare benefit cases in line with SFIS procedures.

It will enable the Council to continue to deliver against its responsibility to investigate HB/CTR/CTB and national welfare benefits in the run up to the introduction of Universal Credit and will also allow an increased capacity to undertake national high profile projects, such as the housing tenancy fraud exercise which is currently being run with Wolverhampton Homes. Other future projects could include Business Rates Fraud, Blue Badge Fraud, Right to Buy Fraud, Procurement, Personal Direct Payments, Recruitment and fraud against schools. Some of the other benefits this arrangement will bring includes:

- Opportunities for staff working in fairly constrained areas to gain experience of the wider fraud agenda.
- Clearer reporting lines through to the Audit Committee and the Investigations Sub Committee.
- Delivery of a wider counter fraud programme and call-off investigations, to current and potential future partners including West Midlands Pensions Fund, academy convertors, links with Sandwell etc.
- More visible continuation of the existing fraud programme from an audit perspective, including the National Fraud Initiative (NFI), self-assessing against

4.0 Financial implications

- 4.1 The National Fraud Authority (NFA) encourages organisations to review their fraud risks and to develop responses to manage those risks. Their Annual Fraud Indicator 2013 estimated total fraud loss against the UK to be £52 billion per annum. The current estimate of fraud against local government is £2.1 billion. This is broken down into the fraud types detailed in the table below:

Fraud Type	Fraud Loss
Housing tenancy fraud	£845 million
Procurement fraud	£876 million
Payroll fraud	£154 million
Council tax fraud	£133 million
Blue Badge Scheme misuse	£46 million
Grant fraud	£35 million
Pension fraud	£7.1 million

- 4.2 The NFA developed a fraud loss profile tool to calculate indicative lower and upper estimates of potential fraud loss through council tax, housing tenancy, procurement and payroll. In July 2012 relevant Council data was fed into this tool. The resulting potential estimated loss through fraud and error to the Council ranges from £7.6 million to £12.7 million, the details of which are contained in the table below:

	Lower Estimate £000s	Upper Estimate £000s	Notes
Council Tax Fraud	550	920	(a)
Housing Tenancy Fraud	3,200	5,300	(b)
Procurement Fraud	3,440	5,740	(c)
Payroll Fraud	450	750	(d)
Total	7,640	12,710	

The results in each fraud category in the table are underpinned by the following assumptions:

(a) Council Tax

The Audit Commission estimates that the percentage of dwellings incorrectly claiming single person discount (SPD) falls between 4% and 6%. For the purpose of this calculation, and to comply nationally with the Audit Commission guidance, the lower estimate of 4% has been used to give an indicative estimate of the levels of over claiming across all council tax discounts and exemptions, not just SPD. However, recent discount and exemption reviews undertaken at Wolverhampton suggest that 3% may be a more accurate estimate, which would reduce the above figures.

(b) Housing Tenancy

The Audit Commission estimates that the percentage of social housing unlawfully occupied in London is 2.5%, everywhere else is 1%. A conservative estimate of 1% has been used to calculate housing tenancy fraud.

(c) Procurement

A 1% fraud loss rate for procurement has been used as identified in the National Fraud Authority Annual Fraud Indicator.

(d) Payroll

A 0.2% fraud loss rate for payroll has been used as identified in the National Fraud Authority Annual Fraud Indicator.

- 4.3 During November each year the Audit Commission publishes the 'Protecting the Public Purse' report. Much of the information in the report comes from an annual survey of local authorities, which also informs the NFA's annual assessment of the total value of fraud in the UK. The annual fraud survey was completed at the beginning of May 2013 and the headline results for Wolverhampton were:

Type of Fraud	No. of cases	Value £000s
Housing benefit / Council Tax benefit resulting in a caution, administrative penalty, prosecution or overpayment of benefit.	337	432
Tenancy sub-letting (Wolverhampton Homes) – Illegal Subletting of Properties	27	*486
Other tenancy fraud (Wolverhampton Homes) – Fraudulent Application, Succession, Abandonment or Non Occupation	45	*810
Procurement 8 x Cloned Fuel Cards	99	£9
Debt fraud 1 x Direct Debit, 62 x Credit Card Chargebacks, 7 x Cloned Purchase Cards (46 purchases), 35 x Counterfeit Bank Notes	144	13

* based on the NFA average cost of £18,000 to house a family for a year.

- 4.4 The Benefits Fraud Investigations Team and Audit Services investigative a number of benefit matches reported via the National Fraud Initiative (NFI). As at 31 March 2013, 619 such matches were in progress or had been completed with 28 errors and 43 cases of fraud identified. The potential savings resulting totalled £370,000. These overpayments largely relate to benefits paid to students but also include overpayments made to Council (either Wolverhampton, or elsewhere) employees totalling £43,000 and other such cases.
- 4.5 In 2012/13 Audit Services also helped to identify 218 duplicate payments with a total value of £114,000 which were then stopped prior to payment. A further 76 such payments with a total value of £46,000 had been or were in the process of being recovered from suppliers.
- 4.6 As outlined in the report, and in light of this financial data, the Benefit Fraud Investigation Team is to be merged with Audit Services. This team comprises seven posts, including management, investigations and support, the estimated cost of which is £243,000 in 2013/14. (GE/09092013/B)

5.0 Legal implications

5.1 There are no legal implications arising from this report. (JH/05092013/K)

6.0 Equalities implications

6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

8.1 The management arrangements as detailed in this report will result in the Benefit Fraud Investigation Manager having a different reporting line through to Audit Services, and the members of the team will potentially see a change in their remit beyond Housing Benefit, Council Tax Reduction and historic Council Tax Benefits

9.0 Schedule of background papers

None