



# **Fighting Fraud Checklist for Governance**

## **Protecting the public purse 2014**

**Sheffield City Council  
April 2015**

**Prepared by Internal Audit on  
Behalf of the Audit Committee**

## **Introduction**

The Audit Commission has included a checklist appended to the Protecting the Public Purse report. This checklist identifies to Members the key elements that are required to manage the risk of fraud across the Council.

The checklist allows councils to evaluate their arrangements. This document seeks to use the Audit Commission publication as a basis for evaluating the arrangements in place within Sheffield City Council.

This document has been prepared by Internal Audit to highlight to the Council's Audit Committee which is referred to as "those charged with governance" that the Council has in place adequate arrangements for the mitigation, detection and investigation of fraud that may occur within the Council.

General	Yes	No
1. Do we have a zero tolerance policy towards fraud?	✓	
<p><b><u>Actions</u></b></p> <p>The Policy Statement - Fraud &amp; Corruption incorporates a message from the Chief Executive which clearly states the 'zero tolerance' approach of the authority. It incorporates the fact that any instances of fraud or corruption will be treated as gross misconduct. The Policy Statement forms part of the Corporate Code of Conduct for Employees.</p> <p>The 'zero-tolerance' message was included in fraud awareness training events which were delivered to managers/employees across SCC. This message was also incorporated into a fraud awareness course available to staff via e-learning.</p>		
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with Fighting Fraud Locally?	✓	
<p><b><u>Actions</u></b></p> <p>The following fraud related strategies, policies and plans are in place:</p> <ul style="list-style-type: none"> <li>Financial Regulations 2014</li> <li>Code of Conduct for employees</li> <li>Policy Statement – Fraud &amp; Corruption (Appendix to the above)</li> <li>Money Laundering Policy</li> <li>Whistleblowing Policy</li> <li>Regulation of Investigatory Powers Act Policy</li> <li>Internal Audit Plan (incorporating pro-active and re-active counter fraud assignments)</li> <li>Finance Service Plan (including specific counter-fraud related deliverables)</li> <li>Fraud Response Plan</li> <li>Risk Management Toolkit</li> <li>Fraud Risk Management guidance</li> <li>Annual Governance Statement (Fraud Risks)</li> <li>Fraud awareness e-learning module.</li> </ul>		

	Yes	No
3. Do we have dedicated counter-fraud staff?	✓	
<p><b><u>Actions</u></b></p> <p>Service Managers are responsible for the investigation of fraud within their respective areas. Internal Audit has accredited officers available to investigate larger scale allegations and provide advice to managers.</p> <p>Internal Audit has a limited resource for fraud investigation as outlined in the Annual Plan. Presently there is only one qualified fraud investigator in the service. To strengthen this position the finance leadership team have agreed to fund the training of two extra officers to increase capacity and resilience in the service.</p> <p>There are dedicated staff in housing to investigate housing tenancy fraud.</p>		
4. Do counter-fraud staff review all the work of our organisation?		✓
<p><b><u>Actions</u></b></p> <p>Internal Audit maintains a resource to address fraud issues e.g. policy issues, serious allegations etc. and the Internal Audit plan contains a small number of counter fraud exercises to review specific fraud risks.</p> <p>Service Management has the primary responsibility for internal fraud investigation (with the support of Human Resources).</p> <p>Internal Audit operates a risk based approach to auditing and key risks are identified for inclusion in the audit plan in conjunction with service management. Internal Audit considers fraud risk for inclusion in the scope of each audit review.</p> <p>In the forthcoming year Internal Audit will be undertaking a review of the investigation process and its application across the council to ensure that these are undertaken in an efficient and effective manner.</p>		
5. Does a councillor have portfolio responsibility for fighting fraud across the council?		✓
<p><b><u>Actions</u></b></p> <p>Ben Curran is the cabinet member for finance and resources. His responsibilities align to the resources portfolio which encompassed Internal Audit. There is no specific responsibility delegated to the post to cover fighting fraud across the council. All members of the cabinet are responsible for fraud in their area, and are held to account by the council as a whole.</p> <p>The Audit Committee receive reports on fraud arrangements across the council.</p>		

	Yes	No
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	✓	
<p><b><u>Actions</u></b></p> <p>The Annual Governance Statement provides a level of assurance that fraud risks have been identified and addressed.</p> <p>The internal audit plan is endorsed by the Audit Committee on an annual basis and the senior finance manager (Internal Audit) produces an annual report which includes information on counter fraud activities.</p> <p>A bi-annual risk management report is submitted to the Audit Committee.</p> <p>Individual investigation reports are provided for serious incidents.</p>		
7. Have we received the latest Audit Commission briefing presentation from our external auditors?	✓	
<p><b><u>Actions</u></b></p> <p>The details of the Audit Commission briefing have been included in the fuller report on the PPP report attached to this appendix. This answers the issues raised and shows how the council has dealt with the issues.</p>		
8. Have we assessed our management of counter-fraud work against good practice?	✓	
<p><b><u>Actions</u></b></p> <p>A full review of SCC practice compared against CIPFA's 'Red Book 2' was completed in 2013. A new code is being produced by CIPFA and we will review our practice against this once it is available. Internal Audit have also attended National Anti-Fraud Network Conference and South and West Yorkshire investigators forums where best practice is shared and this is incorporated into our methods of working.</p>		
9. Do we raise awareness of fraud risks with:		
■ new staff (including agency staff);	✓	
■ existing staff;	✓	
■ elected members; and	✓	
■ our contractors?	✓	
<p><b><u>Actions</u></b></p> <p>Fraud is specifically covered in the Officer code of Conduct. It is a requirement that all agency staff must comply with the code and it is the appointing manager's responsibility to ensure that the individuals concerned are fully compliant with the code at the start of their appointment. Specific short term appointments such as those</p>		

or polling clerks may not cover, the full code, but specific fraud issues pertinent to these posts are specifically raised with the individuals concerned.

A programme of awareness training was provided in 2009/10 and 2010/11. This training has been delivered to more than 600 employees across SCC and Sheffield Homes.

A specific training session was organised for the Audit Committee in February 2010 and all members were invited. Members may also be given access to the e-learning package.

Fraud awareness is not currently included in the corporate induction programme beyond the requirement to read the Code of Conduct for employees (incorporating the Policy Statement – Fraud & Corruption).

An e-learning fraud awareness course has been produced and made available to all staff with access to e-learning for whom a development need is identified (including new recruits). The training will be updated in 2015/16 and will be re-emphasised to the appropriate managers.

Commercial fraud risks are addressed by a requirement for contractors to comply with all current legislation (and indemnity provision) being incorporated into the standard terms and conditions. In addition specific anti-competitive and anti-bribery conditions apply to the contracting process.

	Yes	No
10. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	✓	

**Actions**

SCC maintains membership with Core Cities and the South & West Yorkshire Investigators Group.

Internal Audit & Capita work directly with the Department of Work and Pensions, the Local Authority Investigation Officer Group and the National Anti-Fraud Network.

There is a Service Level Agreement (SLA) in place between the council and Department for Works and Pensions (DWP) to cover the requirements brought in as a result of the new Single Fraud Investigation Service (SFIS)

The National Anti-Fraud Network and the Financial Crime Information Network provide bulletins on current fraud risks. Internal Audit staff are members of professional bodies such as CIPFA, Institute of Internal Auditors and CIMA. These bodies provide periodic updates in areas such as fraud risks. These updates are cascaded throughout the team as appropriate.

	Yes	No
11. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	✓	
<p><b><u>Actions</u></b> As 9 and 10 above plus:</p> <p>The Audit Commission National Fraud Initiative (NFI) operates under formal arrangements and provides for the sharing of data between local authorities and other participating organisations. As part of the South and West Yorkshire investigators group information on fraud issues is shared on a regular basis. A shared portal has been developed by Cheshire Council to allow this to be undertaken in an easier way.</p> <p>Internal Audit maintains an informal working arrangement with South Yorkshire Police.</p>		
12. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	✓	
<p><b><u>Actions</u></b></p> <p>The annual Internal Audit Plan includes 'risk-based' audits based on a risk assessment and discussion with Service Directors. Each of these reviews includes an assessment of the internal controls within scope to identify instances in which they are not present or not working effectively. Auditors consider fraud risks for each assignment.</p> <p>Where appropriate recommendations are made to improve internal controls at the conclusion of each review, implementation is confirmed with the client and followed up.</p> <p>A small number of pro-active counter fraud reviews are included in the internal audit plan that focus on activities where, due to the nature of the service, the risk of fraudulent activity is heightened. At the conclusion of appropriate re-active investigations, systems and controls are reviewed to identify weaknesses and to recommend improvements to prevent future instances of fraud both within the relevant service area and corporately.</p>		
13. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?	✓	
<p><b><u>Actions</u></b></p> <p>The council has been a participant in the NFI since 1995. Data matches are circulated to all relevant service areas and Capita for examination and resolution. Internal Audit maintains a coordinating and advisory role in addition to responsibility</p>		

for examination of some data matches.

SCC participated in the NFI Council Tax, single person discount data matching exercise for the first time in 2012 and is now an annual exercise.

SCC has taken part in a NFI pilot exercise to data match self-directed support (Direct Payments) with other local authority and central government data following the pilot this dataset is now included in the two yearly exercise.

	Yes	No
14. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	✓	
<p><b><u>Actions</u></b></p> <p>SCC has adopted a detailed Anti Money Laundering Policy. This document includes an appendix which contains guidance to staff and is available via the intranet. Incidents are reported to Internal Audit and in turn the Serious Organised Crime Agency where appropriate.</p>		
15. Do we have effective arrangements for:		
■ reporting fraud?; and	✓	
■ recording fraud?	✓	
<p><b><u>Actions</u></b></p> <p>Financial Regulations require Executive Directors to ensure that Internal Audit (on behalf of Section 151 officer) is notified of all incidents of financial irregularity. Internal Audit records each reported incident and compiles the Audit Commission annual Fraud and Corruption survey. Fraud attempts against SCC have also been reported to Action Fraud.</p> <p>Although the above controls are in place, full compliance cannot be assured.</p> <p>A key issue to be reviewed going forward is to identify and record not only proven fraud activity, but also areas which are serious issues are identified, but where actual fraud is indicated, but not proven.</p>		
16. Do we have effective whistle-blowing arrangements? In particular are staff:		
	Yes	No
■ aware of our whistle-blowing arrangements?	✓	
■ have confidence in the confidentiality of those arrangements?	✓	



■ confident that any concerns raised will be addressed?	✓				
<p><b><u>Actions</u></b></p> <p>SCC has adopted an extensive Whistleblowing Policy that contains an explanation on whistleblowing arrangements and the reporting access routes including the details of designated contact officers. The Human Resources service maintains a central register of allegations. Whistleblowing allegations are all reviewed and where appropriate fully investigated by someone independent of the area.</p> <p>Although the above controls are in place, full compliance cannot be assured. It is noted that during the current year the number of whistleblowing actions with the potential to uncover fraud has risen. These are always dealt in confidence and followed up promptly.</p>					
<table border="1"> <tr> <td data-bbox="178 741 1098 779"></td> <td data-bbox="1098 741 1249 779"><b>Yes</b></td> <td data-bbox="1249 741 1426 779"><b>No</b></td> </tr> </table>				<b>Yes</b>	<b>No</b>
	<b>Yes</b>	<b>No</b>			
17. Do we have effective fidelity insurance arrangements?	✓				
<p><b><u>Actions</u></b></p> <p>SCC's fidelity insurance covers every employee to a limit of £10M.</p> <p>There is annual requirement to complete a pro-forma for the fidelity guarantee insurance. This is undertaken by the Insurance Section with input from Internal Audit. This has been recently completed for the forthcoming year and accepted by the insurance company.</p>					
<table border="1"> <tr> <td data-bbox="178 1182 1098 1256"><b>Fighting Fraud with reduced Resources</b></td> <td data-bbox="1098 1182 1249 1256"><b>Yes</b></td> <td data-bbox="1249 1182 1426 1256"><b>No</b></td> </tr> </table>			<b>Fighting Fraud with reduced Resources</b>	<b>Yes</b>	<b>No</b>
<b>Fighting Fraud with reduced Resources</b>	<b>Yes</b>	<b>No</b>			
18 .Are we confident that we have sufficient counter-fraud capacity and capability to detect and prevent fraud, once the SFIS has been fully implemented?	✓				
<p><b><u>Actions</u></b></p> <p>The internal audit plan is produced on an annual basis, the formulation of this plan incorporates new and emerging risks including those associated with the current financial climate. The resources are under review as there is very little capacity in the system should a major incident (or a number of smaller incidents) occur.</p> <p>The staff transferred to SFIS only dealt with the benefits fraud work which is being transferred. The level of remaining resource is adequate for the workload in the Internal Audit plan. In order to provide additional capacity and to provide the required resilience, funding has been allocated to train an additional two fraud investigators. These will be able to undertake additional investigations should the need arise.</p> <p>A review of the SFIS arrangements will be conducted in 2015/16 to ensure that the new processes are operating satisfactorily.</p>					

	Yes	No
19. Did we apply for a share of the £16 million challenge funding from DCLG to support councils in tackling non-benefits fraud after the SFIS is in place	✓	
<p><b><u>Actions</u></b></p> <p>Sheffield Council put forward a bid totalling £191,000 over 2 years to develop a central team and to provide professional training and support to a wider range of managers across the council who are involved in investigations. This would have expanded the central resource by two individuals and would have allowed the team to undertake additional proactive and reactive work across the Council.</p> <p>Although supported by both officers and the cabinet member for finance, the council was unsuccessful in its bid and therefore this development has not taken place. It has been noted that many other council's have been developing a central team to deal with all of the investigations of the council to ensure that there is a professional and consistent approach. At this point in time we are unable to drive this forward, but will look for any future opportunities to pursue this.</p>		
20. If successful, are we using the money effectively	✓	
<p><b><u>Actions</u></b></p> <p>Not required as no funding received.</p>		
Current risks and issues	Yes	No
<b>Housing tenancy</b>		
21. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	✓	
<p><b><u>Actions</u></b></p> <p>A revised lettings policy was presented to cabinet on 20<sup>th</sup> March 2013. There is a vetting and validation process in place to confirm identity and eligibility of each individual prior to the letting of any property.</p>		
22. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	✓	
<p><b><u>Actions</u></b></p> <p>Home visits and day to day contact with tenants provides assurance on occupancy however resources have been allocated to recover properties identified. The NFI process also identifies issues with tenancies.</p> <p>The 2015/16 Internal Audit plan included a review of internal controls in respect of housing tenancy fraud and the application of new offences. This resulted in a medium</p>		

low opinion as the controls were found to be good and adequately applied.

Procurement	Yes	No
23. Are we satisfied our procurement controls are working as intended?	✓	

**Actions**

Internal Audit conducted audits in this area in 2014/15. The reviews covered the Purchase to Payment review covering the creditors systems. Other reviews covered specific aspects of the process such as the procurement of external legal advice. The audits resulted in Internal Audit issuing a 'medium – low' opinion on the risk of the service not achieving its objectives.

Reviews of the council's major contractors and tendering processed have not revealed any significant issues.

Several audits have been included within the 2015/16 internal audit plan to cover this area.

24. Have we reviewed our contract letting procedures to ensure they are in line with best practice?	✓	
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**Actions**

Aspects of contract letting feature in the Internal Audit annual plan. Internal Audit conducted the following reviews; Commercial Services, Use of Consultants, Contract Waivers. All audits covering the letting or management of contracts now include testing in this area.

A review of the new EU tendering regulations is included in the 2015/16 annual audit plan.

Recruitment	Yes	No
25. Are we satisfied our recruitment procedures:		
■ prevent us employing people working under false identities;	✓	
■ confirm employment references effectively;	✓	
■ ensure applicants are eligible to work in the UK; and	✓	
■ require agencies supplying us with staff to undertake the checks that we require?	✓	

**Actions**

The Council has in place controls to ensure that all of the above areas are covered,

this included a requirement for the council's agency staff provider to complete the appropriate propriety checking.

The number of appointments made by the council has fallen significantly in recent years. Many of the schools for instance have transferred to academy status and these are now separate from the controls and auditing regimes of the Council.

Internal Audit has completed testing in this area as part of its normal auditing work, and no issues have been found in the performance of the controls linked to the above areas.

The National Fraud Initiative matches payroll records against Immigration records every two years and reports any instances of potential illegal working for investigation. The most recent NFI exercise reports were delivered in February 2015 and there were no Immigration matches identified.

Personal budgets	Yes	No
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?	✓	

**Actions**

A review of SDS operational controls was completed during 2012/13. Progress on the issues contained in the report was reported to the audit committee in November 2013 and subsequent to this Internal Audit has carried out a follow-up report of this area to confirm the information provided. The result of this is that significant progress has been made in this area; however some issues remain to be completed.

Self-directed support was included in the Adult Social Care Management Review undertaken in 2014/15, undertaken by Internal Audit.

A number of audits have been scheduled for completion in 2015/16 concerning adult social care including working with health on the Better Care Fund, the operation of the resource allocation system and progress made with the review and reassessment of adult social care packages.

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?	✓	
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**Actions**

The SCC Whistleblowing Policy is intended to be used to report inappropriate behaviour by members / officers of the council including financial malpractice. The highest risks relating to personal budgets are associated with misuse by service user and abuse by service providers and family members.

The SCC website has a simple link (2 clicks from the homepage) which gives access to advice on 'Reporting Abuse'. This specifically refers to financial abuse and provides links to the Council, South Yorkshire Police and specialist support organisations.

Council tax discount	Yes	No
28. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	✓	

**Actions**

A review of the new Council Tax Support which is Local Authority administered and replaced Council tax benefit was conducted in 2014/15 and no significant issues were noted.

The council tax and business rates systems (including discounts) are regularly reviewed by Internal Audit as part of the assurance provided on the council's main financial systems.

A review of the Single Person Discount processes will be carried out by Internal Audit in 2015/16. Which will look at the processes to identify and deal with potential fraud cases.

Housing benefit	Yes	No
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 (HMBS);		✓
■ internal data matching; and	✓	
■ private sector data matching?	✓	

**Actions**

SCC participates fully in the core biennial NFI exercise and annual Single Person Discount exercise. Capita and Internal Audit have in the past utilised the DWP HBMS service to identify potentially fraudulent claims however this process has been temporarily paused within contract management arrangements and with the agreement of the DWP.

An e-communication system (ATLAS) has been introduced by the DWP to provide local authorities with up to date information on changes in circumstances affecting benefit claims.

Internal audit have access to a programme called IDEA (Interactive Data Extraction and Analysis) which allows data matching of datasets for fraud activity. This has been successfully used on a number of reviews during the year, and is being developed further.

Capita has utilised private sector data matching techniques to identify potential Housing Benefit fraud in addition to obtaining credit referencing agency data during individual investigations.

Other fraud risks	Yes	No
29. Do we have appropriate and proportionate defences against emerging fraud risks:		
■ business rates;	✓	
■ Right to Buy;	✓	
■ council tax reduction;	✓	
■ schools	✓	
■ grants	✓	

**Actions**

Emerging fraud risks are taken into account in the formulation of the Internal Audit annual plan in addition to other identified risks. Examination of emerging risks is included in the scope of planned audits or scheduled for specific future review. For example, a specific review of the Council Tax Support and Hardship Fund was completed in 2014/15. The Social Fund and Local Welfare Assistance scheme has been identified for future audit. Risks relating to Business Rates will be included within the scope of the Main Financial Systems review (National Non Domestic rates) and the risks relating to schools were examined in a number of themed reviews in this area (note that academy schools are outside the scope of council governance and auditing regimes and should have their own arrangements in place).