



## Committee report

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| Committee | <b>AUDIT COMMITTEE</b>  |
| Date      | <b>3 DECEMBER 2018</b>  |
| Title     | <b>ANNUAL FRAUD, IRREGULARITY AND WHISTLEBLOWING REPORT 2017-18</b> |
| Report of | <b>CHIEF INTERNAL AUDITOR</b>                                       |

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### EXECUTIVE SUMMARY

1. This report is to inform the committee of any incidents of fraud and irregularity experienced by the council during the period 1 April 2017 to 31 March 2018. All cases are reported at the conclusion of an investigation and where applicable a prosecution. For the period noted there is one case to report.

### BACKGROUND

2. The council continues to have a comprehensive array of strategies and associated policies to counter the risk of fraud and corruption, including:
  - Counter-Fraud and Corruption Strategy
  - Codes of Conduct for employees and for members
  - Audit Committee
  - Financial Regulations
  - Contract Standing Orders and associated Procurement Code
  - Policies and processes, including Gifts & Hospitality
  - Monitoring Officer and Section 151 Officer
  - Complaints Policy
  - Whistleblowing Policy
  - National Fraud Initiative
  - Internal audit
  - External audit
  - Compliance with transparency requirements
  - Systems and controls which are designed to counter-fraud and error
  - Processes for managing risks
  - A comprehensive system of budget monitoring

### STRATEGIC CONTEXT

3. As the steward of public funds and the custodian of public assets, the council must ensure that its operations are protected from fraud. If undetected, fraud

will mean that taxpayers' moneys and contributions received from service users will be wasted and not available for spending on services, placing even more pressure on the council's budget.

### BENEFIT FRAUD

4. An area susceptible to fraud is that of Housing Benefit. With effect from October 2015 the responsibility and resources for the investigations of benefit cases transferred across to the Department of Works and Pensions (DWP) under the Single Fraud Investigation Service. However from November 2018 the DWP are seeking joint working with the council on cases that affect both parties. The summarised results of which will be reported at an appropriate time to this committee.
5. The responsibilities to investigate non-benefit fraud such as Local Council Tax Support fraud, Housing fraud, Council Tax and Business Rates discounts and exemptions frauds remains with the Council, resources are deployed as and when required and in accordance with policy (Anti-Fraud, Bribery & Corruption).

### NON- BENEFIT FRAUD

6. The level of fraud identified against the council has been low or non-existent in previous years and it is difficult to be specific about the reasons for this, however they will include:
  - Fraud exists, but goes undetected or unreported, this risk is unquantifiable however nationally fraud is reported to be on the increase.
  - The controls highlighted at paragraph 2 above are effective at controlling the risk of fraud to a large extent.
7. During 2017/18 however there has been one case investigated which is currently proceeding under prosecution. This case relates to the potential fraudulent use of £171k of direct payments. At the conclusion of the prosecution further details will be provided to the committee.

### WHISTLE-BLOWING

8. There has been one instance of reported whistle-blowing during the period 1 April 2017 to 31 March 2018. For a number of years the council has had a procedure for receiving and dealing with whistle-blowing, but has not received many allegations through this particular route. This may be because there are other routes which staff, members and contractors can use to report such allegations, such as through the complaints process or directly with management.
9. The instance reported is noted below:
  - A poor system for managing the receipt of cash in one area was investigated. From January 2018 all future transactions in that area will be electronic. No discrepancies were found.

10. The council continues to maintain a whistle-blowing policy for staff, members and the public <http://www.iwight.com/documentlibrary/view/whistleblowing-at-work-policy> which is intended to encourage people to raise their genuine concerns so that any malpractice or irregularity can be investigated and addressed.

### WORK CARRIED OUT

11. During 2017/18 and as part of the shared Chief Internal Auditor role with Portsmouth City Council, counter-fraud arrangements have been enhanced which are noted below. This work will be continued and extended once the in-house Internal Audit team is established from 1 April 2019. Work carried out to date includes:

- Establishing an Investigation Steering Panel to receive allegations/concerns and then direct investigations carried out by members of the Audit team. Membership of this panel includes officers with statutory responsibility, such as the Monitoring Officer, s151 Officer along with the Chief Internal Auditor and Director of Corporate Resources if required. The purpose of the panel is to bring transparency and consistency to investigations undertaken by Internal Audit and to enable them to be directed to the appropriate party from the outset.
- Carrying out investigations into suspected theft or fraud, with if required the support of the Council's Financial Investigator.
- Coordinating the National Fraud Initiative (NFI) requirements, (a mandatory requirement of the Cabinet Office). The bi-annual data submissions are currently in the process of being uploaded.
- The setting up of additional data analytics using the functions of IDEA (software tool) which will enable the Council to have clarity on potential high risk areas.
- The reviewing of relevant policies and processes in place for the investigation of theft/ fraud and misappropriation across areas of the council.

### CONSULTATION

12. Internal consultation has taken place over this report, liaising with those responsible for receiving and recording incidents of whistle-blowing in accordance with policy and with senior management who are often the recipients of allegations of irregularity.

### FINANCIAL / BUDGET IMPLICATIONS

13. Fraud, if undetected will have a direct impact on the council's financial well-being and will deny the use of resources for service delivery or to meet the council's savings requirements.

## LEGAL IMPLICATIONS

14. There are no direct legal implications of this report. The council has a duty to administer its financial affairs in a proper manner. Part of that requirement is that the council must protect itself, taxpayers and service users from the risk of fraud and other irregularity. The council may initiate prosecutions for fraud or liaise with appropriate body depending on the type of offences alleged.

## EQUALITY AND DIVERSITY

15. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups. The council is required to have adequate governance arrangements in place to effectively manage its resources.

## RISK MANAGEMENT

16. It is important for the council to recognise the risk from fraud. That means it must continue, as a minimum, to use the measures that are set out in paragraph 2 to counter that risk. Investment in anti-fraud measures can be cost-effective in reducing the cost of fraud which has the potential to impact on over £300 million of council spending and income. There is a fraud risk held on the council's risk register intended to manage the risk of fraud and to ensure that controls continue to operate to counter the risk.

## RECOMMENDATION

17. To note the report of the Chief Internal Auditor and agree any further information or action as required.

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