

AUDIT COMMITTEE

Venue: Town Hall, Moorgate
Street, Rotherham. S60
2TH

Date: Wednesday, 19 December
2012

Time: 4.00 p.m.

A G E N D A

1. To determine if the following matters are to be considered under the categories suggested in accordance with the Local Government Act 1972.
2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.
3. Minutes of the previous meeting held on 21st November, 2012 (herewith) (Pages 1 - 6)
4. Welfare Reform - Impact on Rotherham (report herewith) (Pages 7 - 10)
5. Audit Commission - National Fraud Initiative Review and Developments (report herewith) (Pages 11 - 26)
6. Annual Review - Insurance and Risk Management Performance (report herewith) (Pages 27 - 34)
7. Date and time of the next meeting - Wednesday, 23rd January, 2013 at 4.00 p.m.

AUDIT COMMITTEE
Wednesday, 21st November, 2012

Present:- Councillor Sangster (in the Chair); Councillors Kaye.

Also in attendance were: - Martin Kimber, Colin Earl, Dave Richmond, Jon Baggaley, Derek Gaffney, Rashpal Khangura and Steve Eling.

Apologies for absence were received from Councillors License and Sims.

P24. MINUTES OF THE PREVIOUS MEETING HELD ON 24TH OCTOBER, 2012.

Consideration was given to the minutes of the previous meeting of the Audit Committee, held on 24th October, 2012.

Resolved:- That the minutes of the previous meeting be agreed as a correct record for signature by the Chairman.

P25. RISK MANAGEMENT AND MITIGATION IN THE HOUSING REVENUE ACCOUNT 30 YEAR BUSINESS PLAN.

Consideration was given to a report presented by the Director of Housing and Neighbourhoods, Neighbourhood and Adult Services, and the Financial Strategy Finance Manager, Resources Directorate, which stated that the implementation of Housing Revenue Account Self-Financing Initiative, from April 2012, presented the Council with significant investment opportunities. The report stated that, under this arrangement, Councils would be allocated a proportion of the national housing debt, and would, in return, be allowed to collect and retain all housing income. All risk was transferred from the Government Department for Communities and Local Government to local authorities who would have to utilise the income to manage debt, repair and maintain housing stock and estate infrastructure and provide housing management services to ensure a sustainable business in the future.

Members noted that changes in inflation, local rent policy, interest rates and investment and debt management decisions would impact on the financial viability of the Council's Business Plan. Robust, proactive management of all aspects of the Plan will be essential throughout the thirty-year Business Plan. The submitted report demonstrated how the risks identified within the Business Planning process were being managed and mitigated by Neighbourhood and Adult Services and Financial Services.

Within the Business Plan, the following factors were represented: -

- Current costs of delivering housing services as per the 2012/13 revenue budget;
- Current treasury management assumptions and forecasts associated with servicing existing debt;
- The thirty-year capital investment requirements of the existing stock as identified from the APEX stock condition survey;
- The Authority would work towards rent convergence by 2016/17.

The Business Plan was made on a number of key assumptions. It was

imperative that they were based upon sound knowledge, were robustly challenged, monitored and updated on an ongoing basis in order that the self-financing initiative in Rotherham realised maximum benefits so that local and national policies were fulfilled and first-class housing services were provided.

Key Assumptions included: -

- General inflation based on Retail Price Index. Based on 3.2% for 2013/14.
- Interest rates – applied to the outstanding HRA debt of £304 million, were based on 4.71% for 2012/13, rising to 5% in 2016/17 and rising to 6% thereafter.
- Rent convergence – the Business Plan had the Authority working towards convergence in 2015/16, with actual convergence being achieved in 2016/17.
- Capital Investment Requirements – an extensive data cleanse and detailed survey exercise was being undertaken to ensure that all information incorporated into the Asset Management Strategy was robust.

Quarterly performance monitoring and annual updates would ensure that the key assumptions, risks and mitigation actions remained up to date and risk managed.

In addition to internal key assumptions, there were a number of national policy issues that could also impact on the Business Plan: -

- Right to Buy receipts;
- Welfare Reform.

Discussion ensued, and the following issues were raised by members of the Audit Committee: -

- Changing housing landscape and how the thirty year-business plan would reflect ongoing changes.
- Investment;
- Renegotiation of debt.

The Chair of the Audit Committee thanked the officers for their presentation of a comprehensive report.

Resolved:- (1) That the report be received and its contents noted.

(2) That the steps being taken to manage and mitigate risk to this Council of the Housing Revenue Account Self-Financing Initiative be noted.

P26. LOCALISM ACT UPDATE.

Consideration was given to a report presented by the Policy Officer, Commissioning, Policy and Performance, Resources Directorate, which outlined the specific provisions of the Localism Act, 2011, the ways in which these had been implemented and the risks arising to the Council.

The Policy Officer informed the Audit Committee that a number of these risks had been well embedded into the Directorate Risk Registers. There remained some risks that could not be quantified, for example, risks relating to community interests would only become 'risks' following expressions of interest.

The risks to the Council under the provisions of the Localism Act, 2011 included: -

- **Council tax** - 'excessive' proposed increases would be subject to a referendum. This included the setting of the precept by a 'major precepting authority' (Fire or Police) and a local precepting authority' (parish Council). As the billing authority, Councils would have responsibility for arranging referendums.
 - The Council would need to be aware of the trigger percentage for a referendum set by the Government when setting the annual Council tax level.
- **Community Right to Challenge:** - The Commissioning and Procurement Team had been preparing a Forward Plan / Contracts Register that demonstrated all existing contracted services, the nature of the commissioned / procured business and the expiry date of the contract. This formed part of the key data set that would allow potential suppliers / providers to express interest in delivering future services for the Council.
- **Development of Neighbourhood Plans:** - The Local Authority may wish, or be required, to support the financing of Neighbourhood Plans. Pilots had demonstrated that the cost of producing an Order to be at least £20k, which would be met through existing budgets as local authorities could not bid for Central Government funding.
- **Community Right to Build:** - Under this provision, certain community organisations, along with a developer, had the right to bring forward small scale developments on specific sites without the need for planning permission. Local referendums would establish whether members of defined neighbourhoods supported the Community Right to Build Order. If more than 50% were in favour, the Planning Authority must grant permission. Where there were designated business areas covered by the proposed Neighbourhood Plan or Community Right to Build Order, an additional business rate referendum would take place.
- **Housing:** - A thirty-year investment strategy was required and had been put into place by the Local Authority. The Local Authority was also undertaking consultation in relation to the Housing Allocation and Tenure Reform policies.
- **Assets of Community Value:** - The Local Authority was charged with maintaining a list of assets of community value, which could include buildings or land. Parish Councils and community and voluntary organisations could nominate assets to be included on the list. Assets may be removed from the list after a period of five years. There was a

risk that this provision may become confused with local policies relating to asset transfer. Risks relating to this provision would be commensurate with the number of nominations to the list, together with the number and complexity of appeals from the nominated asset's owner and the number of assets that were offered for sale that community organisations would have the right to buy before the asset was placed on the open market.

Discussion ensued and the following issues were raised by members of the Audit Committee: -

- Arrangements for appeals to be heard;
- Liability of the Local Authority in relation to compensation claims arising under through the assets of community value list.

Resolved: - (1) That the report be received and its content noted.

(2) That the Council's risk management approach to certain provisions of the Localism Act, 2011, be noted.

P27. MID-YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING REPORT 2012/13.

Further to Minute Number 16 of the meeting of the Audit Committee held on 26th September, 2012, consideration was given to a report presented by the Chief Accountant, Financial Services, Resources Directorate, which outlined that the regulatory framework of treasury management included a requirement that the Council receive a mid-year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report.

The submitted report met that requirement and incorporated the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators. The report was structured to highlight the key changes to the Council's capital activity (the prudential indicators), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

Resolved:- (1) That the report be received and the details of treasury activity noted.

(2) That the Audit Committee refers the report to Cabinet to consider recommending the Council approves changes to the prudential indicators.

P28. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER 2011/12.

Consideration was given to a report presented by the Director of Audit and Asset Management, Resources Directorate, concerning the Annual Audit Letter 2011/12 from the Council's external auditors KPMG LLP, which summarised the external audit work in relation to the 2011/12 audit plan and highlighted the findings in relation to the following matters:-

- Audit of accounts 2011/12;

- Value for money conclusion;
- Other reviews completed.

A copy of the Annual Audit Letter from KPMG LLP was appended to the submitted report.

The Committee noted that the purpose of the Annual Audit Letter was to communicate to the Council and key external stakeholders, including members of the public, in a clear and concise manner, the key issues arising from the audit which the external auditor considered should be brought to the attention of the Council. The letter briefly summarises of the results of the external auditor's work which had previously been reported to Audit Committee in more detail in the form of, for example:

(i) the Annual Governance Report presented to this Committee on 26th September 2012 immediately prior to the 2011/12 Statement of Accounts being approved; and

(ii) the Interim Audit Report presented to this Committee on 25th April 2012

The main issues from the Annual Audit Letter included:-

(a) the Council's financial statements were produced to a good standard without the need for audit adjustment and were given an unqualified audit opinion before the statutory deadline of 30th September, 2012; KPMG LLP complimented officers on the proactive approach taken in dealing with complex accounting issues and in providing working papers to the expected standard and timely responses to audit queries; and

(ii) the Council had put in place proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness in the use of its finite resources.

The Annual Audit Letter also confirmed that no high priority recommendations were made in relation to the 2011/12 audit and that there are no other matters that needed to be brought to the attention of the Audit Committee. Members noted that this was a very positive audit assessment for the 2011/12 year.

Resolved:- (1) That the report be received and its contents noted.

(2) That the Audit Committee notes the very positive Annual Audit Letter 2011/12 presented to the Council by its external auditors, KPMG LLP.

P29. EXTERNAL AUDIT FEES LETTER 2012/13.

Consideration was given to a report presented by the Director of Audit and Asset Management, Resources Directorate, which outlined what the Council's external auditor, KPMG LLP, had set out in its Annual Audit Fees Letter for 2012/13, including the proposed external audit work to be undertaken in 2012/13 and the indicative fee for carrying out this work.

A copy of the External Audit Fees Letter for 2012/2013, from KPMG LLP, was

appended to the submitted report. The report and letter summarised the scope of the external audit for the 2012/2013 financial year.

Members were informed that, after a procurement exercise conducted as a result of HM Government's decision to abolish the Audit Commission, KPMG's appointment as the Council's external auditor was confirmed for a further five years from 2012/13 until 2016/17. The current audit arrangements had been fixed for the duration of the contract, with the aim of keeping audit fees as low as possible. The Committee noted that the indicative fee for 2012/13 represented a substantial reduction of 40%, compared to the 2011/12 financial year and was a welcome contribution towards the budget reductions the Council must to make. The indicative fee reflected the high quality internal audit work involved in producing the Local Authority's accounts. If this quality was reduced, it would follow that there would be an increase in KPMG's fees to cover the additional work they were required to carry out.

Resolved:- (1) That the report be received and its contents noted.

(2) That the Audit Committee notes the scope of the 2012/2013 audit and indicative fee for carrying out this work, as set out in the External Auditor's Annual Audit Fees Letter.

P30. DATE AND TIME OF THE NEXT MEETING: -

Resolved: - That the next meeting of the Audit Committee be held on Wednesday, 19th December, 2012, to start at 4.00 pm in the Rotherham Town Hall.

RMBC – REPORT TO MEMBERS

1.	Meeting:	Audit Committee
2.	Date:	19th December 2012
3.	Title:	Welfare Reform – Impact on Rotherham
4.	Directorate:	Resources

5. Summary

The presentation and report provide a summary of the main aspects of the government's welfare reform programme, including the main benefit changes and likely impact, together with a summary of the key risks and initial mitigating actions.

6. Recommendations

Members are asked to:

- a) **Note the contents of the report.**
- b) **Consider the approach taken so far and whether this is realistic and proportionate given the level of risk.**

7. Proposals and Details

The presentation provides an overview of the Coalition's rationale for welfare reform, how and when they are implementing it, and the likely impact.

A multi-agency task group was established in early 2012 to help devise and implement the local partnership response to welfare reform. Initially, the main focus was on raising awareness amongst local people and front-line workers.

In September, a strategic steering group was established, chaired by the council leader. This group has developed an action plan that identifies the main issues and sets out mitigating actions.

The major risks, as set out in the presentation, have also been drawn out and built into the corporate risk register.

These risks and the related mitigating actions are summarised in the table below. A task and finish approach, with clear lead officer responsibility, is being taken to deliver the actions identified. An overarching action plan will be overseen by the strategic steering group, with further reporting to cabinet on a periodic basis.

Risk	Mitigating Activity
Failure to implement a local council tax support scheme by January 2013	Options have been presented to members and consultation has been carried out
No local welfare scheme in place by April 2013 to replace DWP provision	A proposed delivery model has been developed, aiming to build on existing provision and utilise existing expertise, thereby minimising set up costs and lead in time.
People are unaware of the benefit changes, how they might be affected and where they can go for help	A range of information leaflets have been produced and circulated widely through partner agencies, council buildings and appropriate fora. Front-line staff have received training on the changes to better equip them to support and signpost their customers/clients.
Families hit by the benefit cap and other benefit reductions are unable to manage, leading to increased homelessness and child poverty	Revs and benefits, troubled families coordinator, housing support teams and DWP are working together to proactively support families that have been identified as being affected by the cap. NAS are identifying ways in which people can be supported with rent difficulties caused by changes to housing benefit/local housing allowance and the move to direct payments to households as part of universal credit.
The economic and wider social impact of welfare reform undermines efforts to reduce inequalities and boost disadvantaged areas	The response to welfare reform is being coordinated via the Resources directorate, with strategic oversight from partners/elected members. This will help to ensure a holistic approach that is aligned with existing efforts to tackle entrenched area-based deprivation, improve health and well being and reduce poverty.

8. Finance

The estimated direct loss to the local economy in terms of reduced benefit payments is set out in the presentation.

There is also reduced funding available for localised council tax support and welfare provision schemes, creating further direct financial pressures.

The indirect financial implications are difficult to quantify, but are likely to be significant.

Wherever possible, our approach needs to be rooted in the principles of early intervention and prevention, tackling the underlying problems faced by vulnerable people and families now, to avoid further costs in the future.

9. Risks and Uncertainties

Welfare reform is a complex issue and this report and the analysis carried out to date can not give an entirely comprehensive picture of the inherent risks or scale of the impact. How individuals, families and agencies cope with the changes is uncertain and there are likely to be indirect impacts, which could have a range of social and/or economic consequences.

10. Policy and Performance Agenda Implications

Welfare reform has implications across a range of policy areas and links need to be made with various ongoing initiatives to prevent duplication of effort. Examples include:

- Making sure no community is left behind (corporate plan priority)
- Reduce poverty in disadvantaged areas (key priority/outcome in the health and wellbeing strategy)
- Provide additional support to the most vulnerable (community strategy priority)

In terms of the council's performance framework, the following outcomes are most relevant:

- Fewer children are living in poverty
- Fewer people struggle to pay for heating and lighting costs
- More people are in work or training rather than living on benefits

The council aims to support people from reliance on benefits into work and the general thrust of welfare reform encourages this. However, the adverse economic climate and disengagement of many claimants from the labour market means that progress will be slow. Consequently, benefit changes are likely to have a negative impact on a number of our performance indicators for some time.

11. Background Papers and Consultation

- Welfare reform action plan and other relevant papers are available on request
- Consultation on the impacts of and responses to welfare reform have taken place with a wide range of local partners and neighbouring authorities

Contact Name:

Michael Holmes, Policy and Partnerships Officer, tel. (2)54417,
michael.holmes@rotherham.gov.uk

ROTHERHAM MBC – REPORT TO AUDIT COMMITTEE
--

1.	Meeting:	Audit Committee
2.	Date:	19th December 2012
3.	Title:	Audit Commission – National Fraud Initiative Review and Developments
4.	Directorate:	Resources

5. Summary

This report provides an update to Members on the Audit Commission's National Fraud Initiative (NFI), following the publication of a briefing note by the Audit Commission in the Summer.

The Audit Commission's briefing includes a checklist to allow audit committee members to confirm councils' work on the NFI is being adequately prioritised. Comparison of our arrangements with the checklist shows the Council is taking relevant and proportionate action on the NFI.

6. Recommendations

The Audit Committee is asked:

- a) To note the Audit Commission briefing paper.**
- b) To support the actions taken by the Council to support the National Fraud Initiative.**

7. Proposals and Details

Introduction

The Audit Commission has recently produced a briefing for elected members, which outlines the benefits from participating in the National Fraud Initiative (NFI); the Audit Commission's data matching exercise. It explains how the NFI helps councils fight fraud and sets out how the Commission plans to improve the NFI.

The briefing includes a checklist for members. The questions included in the checklist have been extracted and included in **Appendix 1** to this report.

The full briefing is included at **Appendix 2**.

Details

Since 1996, the Audit Commission has run the NFI data matching exercise every two years, helping to identify nearly £939 million of fraud, overpayments and error across England, Scotland, Wales and Northern Ireland.

1,300 organisations from across the public and private sectors provide data, and key data sets are provided by government departments and other national agencies.

Participants include all local councils, police authorities, and fire and rescue authorities and local NHS bodies, who are required by law to provide data for the NFI. A number of other public sector and private sector bodies also participate on a voluntary basis.

The briefing shows some of the outcomes and benefits of the NFI. It states that the NFI's full potential is only realised if the bodies that take part (a) supply all the required data on time; and (b) undertake appropriate follow-up investigations of the matches promptly and thoroughly.

The Audit Commission has found that Councils with the most successful counter-fraud strategies are generally those where there is strong support at a senior level, led by elected members, chief executives and directors of finance. The Audit Commission encourages greater involvement and awareness by Members and includes a checklist that members can use to assess, and where appropriate, challenge the robustness of the Council's use of the NFI.

In general the Council has strong arrangements for managing the risk of fraud. It has a robust Anti-Fraud and Corruption Policy and Strategy that is kept up to date to reflect current developments and best practice.

The Council has also participated in every NFI exercise and investigates matches provided by the service dependent upon the risk assessment for each match.

Comparison of our arrangements with the checklist, at Appendix 1, shows the Council is taking relevant and proportionate action on the NFI. In particular:

- There is appropriate Member and officer leadership and support for anti-fraud arrangements

- Appropriate and sufficient resources are allocated to the NFI, including providing all data requested and investigating high risk matches
- Conducting fraud investigations relating to 3 cases of benefits fraud totalling £6,548 and 2 payroll fraud cases totalling £2,302, from matches found in the most recent NFI exercise
- Strengthening systems where weaknesses are highlighted by NFI matches
- Proactively reporting the results of our anti-fraud work.

The government has confirmed it intends to continue the NFI after the Audit Commission's abolition. The Council intends to continue to use the NFI as part of its successful anti-fraud arrangements. There are no additional actions required from the Audit Commission briefing.

8. Finance

There are no direct financial implications arising from this report.

9. Risks and Uncertainties

Failure to keep up to date with anti-fraud and corruption initiatives could expose the Council to increased risks of fraud & corruption as new and emerging risks appear. The Council could also suffer reputational damage if it became victim to any major fraud or corruption. Participation in the National Fraud Initiative helps to reduce these risks.

10. Policy and Performance Agenda Implications

Implementation of effective Anti- Fraud & Corruption Action arrangements contribute towards good governance and support the way the Council does business, by: "Getting it right first time, reducing bureaucracy, and getting better value for money."

11. Background Papers and Consultation

- Audit Commission: The National Fraud Initiative: Council members' briefing, May 2012

Contact Name:

Colin Earl, Director of Audit & Asset Management
colin.earl@rotherham.gov.uk Tel 01709 822033

The National Fraud Initiative: Checklist for members

Question	Answers / action required
The NFI in our council	
What is the role / post of the senior responsible officer accountable for the NFI in our council?	The Strategic Director of Resources is the senior responsible officer accountable for the NFI in RMBC.
Do we have a lead elected member for counter-fraud activity, including the NFI?	<p>From an 'Executive' viewpoint, Councillor Akhtar (Deputy Leader) has responsibility for ensuring the Council has adequate financial management arrangements, including relating to anti-fraud and corruption.</p> <p>The Audit Committee has a leading role in ensuring the Council's arrangements are adequate and are operating effectively.</p>
What role does our audit committee play?	<p>When approving the Internal Audit Plan the Audit Committee approves the resources allocated to the National Fraud Initiative (NFI).</p> <p>The results of NFI exercises are reported to the Audit Committee on a regular basis in anti-fraud updates and at the year end in the Annual Fraud Report.</p>
How are other elected members or non-executive members kept informed of the NFI?	<p>An Annual Fraud report is produced and published, and is made available to all Members.</p> <p>In addition, the Audit Committee Annual Report is presented to the full Council and contains a summary of work undertaken and outcomes from the NFI.</p>
What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI?	<p>Adequate resources are employed across the Council and work is co-ordinated / managed by the Chief Auditor and the Benefits Fraud Manager.</p> <p>The identification of Council Tax Single Persons Discount is done in partnership with Northgate and Experian, providing access to private sector information that can help identify fraud.</p>
Who decides and monitors this approach?	The Strategic Director of Resources has overall responsibility. The Director of Audit and Asset Management, along with the Head of the Benefits Fraud Team, co-ordinates operational activities.

Question	Answers / action required
The NFI in our council	
How is the NFI reflected in the governance training and development provided for officers and board / elected members?	The Council's Anti-Fraud and Corruption arrangements, including the NFI work, have formed part of an Audit Committee information programme.
Maximising results	
What resources do we invest in the NFI?	<p>The Chief Auditor invests significant time in performing the following:</p> <ul style="list-style-type: none"> • Keeping abreast of developments and national requirements • Disseminating information / requirements to all parties taking part in the exercise • Planning, co-ordinating and controlling NFI exercises • Disseminating NFI matches for investigation to a range of officers throughout the Council • Coordinating requests for information / investigations from other organisations • Reporting findings to the Audit Committee • Preparing publicity material relevant to the exercise <p>An Internal Audit specialist performs the role of preparing and uploading the required datasets.</p> <p>In terms of investigation:</p> <ul style="list-style-type: none"> • The Benefits Fraud Team investigates the Benefits matches • Various Officers throughout the Council investigate certain matches • Internal Audit investigates the remaining matches.
What were the outcomes from the most recent NFI?	Benefits fraud investigations involved 3 cases totalling £6,548 fraud. Payroll & other investigations involved 2 cases totalling £2,302 fraud / overpayments.
Are we ensuring we maximise the benefits of the NFI – for example, following up data matches promptly, recovering funds and prosecuting where possible?	Yes. The Council commences investigations of matches as soon as they are available and the Council has a “zero tolerance” policy towards fraud.

Question	Answers / action required
Maximising results	
What assurances have we drawn about the effectiveness of internal controls and the risks faced by the organisation?	Apart from very significant Council Tax Single Persons Discount fraud investigation results, which were reported to the Audit Committee in October 2012, the low level of NFI results / outcomes gives significant assurance in respect of the effectiveness of internal controls and risks.
What changes have we made as a result?	The Council reviews the outcomes of all anti-fraud activities and revising its Anti-Fraud and Corruption Policy and Strategy to reflect new developments and outcomes from previous work.
Do those responsible for the NFI in the council feel they get appropriate support from other managers in the council when investigating matches?	Yes. The Council is determined to minimise fraud and all services contribute as appropriate to its anti-fraud and corruption activity.
Broadening our council's engagement with the NFI	
Are we taking advantage of the opportunity to suggest and participate in NFI pilot data matching?	The Council has supported the NFI by participating fully in all NFI activities. The Council also participated in a pilot exercise on Council Tax Single Persons Discount. We have also looked into other areas such as tenancy fraud.
Have we considered how we could use the new flexible batch and real-time matching services?	The Council has participated in the consultation on the Audit Commission's new services. We will assess the value of participating in any specific services offered.
Data Security	
What is our strategy / policy for data security?	The Council has a robust approach to data security, which is contained in its Data Protection and Information Security Policy.
Is there any specific reference to the NFI data security in the strategy?	NFI data security is captured by the Data Protection and Information Security Policy. It is not separately identified within the Policy as it is expected that the same standards apply to the NFI as they do to any other data held.

Question	Answers / action required
The NFI fit with wider counter-fraud policies	
How does the NFI influence the focus of our counter-fraud work?	The NFI is a significant element in the Internal Audit and Housing Benefits anti-fraud work. Where NFI investigations reveal internal control weaknesses, further action is taken to ensure any weaknesses are addressed.
Does our counter-fraud policy include reference to the council's participation in the NFI?	<p>Section 10 of the Anti-Fraud Strategy, "Taking Action to tackle the problem", states "The Council participates in the National Fraud Initiative".</p> <p>Section 12 of the Anti-Fraud Strategy, "Keeping Ahead", refers to the NFI as a key source of information to inform the Anti-Fraud Strategy.</p>
Do we publicise the outcomes from the NFI?	Outcomes are included in press releases internally and externally, in the local press.
How does the NFI influence how and what we communicate to the public about our approach to counter-fraud?	<p>The Council specifically publicises the NFI exercises on its website and in the local press.</p> <p>Work undertaken and outcomes are included in the Council's Annual Fraud Report.</p>
Are the outcomes from the NFI used to inform our wider decision making – for example, internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy?	<p>Yes, they inform the Internal Audit planning process.</p> <p>This could include reviewing system controls designed to prevent fraud and specific testing designed to identify any potential or actual fraud occurring.</p>

The National Fraud Initiative

Council members' briefing, May 2012



The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Introduction

This briefing for elected members outlines the benefits from participating in the National Fraud Initiative (NFI), the Audit Commission's data matching exercise. It explains how the NFI helps councils fight fraud and sets out how the Commission plans to improve the NFI. It includes a checklist for members on page 9.

Fraud is a serious problem

1 In its recent *Annual Fraud Indicator*, the National Fraud Authority (NFA) estimates that fraud in the public sector costs £20.3 billion a year. This amounts to £390 for every adult in the UK. The cost of fraud to local government is estimated at £2.2 billion a year.

2 Councils need strong anti-fraud cultures and effective counter-fraud policies and procedures that stress the unacceptability of fraud and its serious consequences. Members have a key role in ensuring that their council checks regularly the effectiveness of its arrangements for preventing and detecting fraud.

3 The NFIⁱ combats the threat of fraud by comparing information held by different organisations to identify potentially fraudulent claims and overpayments.

4 The key strength of the NFI is that it brings together a wide range of different organisations, working together in partnership to tackle fraud. Fraudsters will often target different organisations at the same time, using the same fraudulent identities.

The Audit Commission runs the NFI to help detect fraud, overpayments and error

5 Since 1996, the Audit Commission has run the NFI data matching exercise every two years, helping to identify nearly £939 million of fraud, overpayments and error across England, Scotland, Wales and Northern Irelandⁱⁱ. Of this total, £813 million has been detected in England.

6 We run the NFI in partnership with the public audit agencies in Northern Ireland, Scotland and Wales. Aggregate outcomes for bodies in Scotland,

i The government has confirmed it intends to continue the NFI after the Audit Commission's abolition.

ii Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up and under 0.5 rounded down.

Wales and Northern Ireland since they first started to run the NFI are £127 million.

7 Some 1,300 participating organisations from across the public and private sectors provide data, and key data sets are provided by government departments and other national agencies.

8 Participants include all local councils, police authorities, and fire and rescue authorities and local NHS bodies, who are required by law to provide data for the NFI. A number of other public sector and private sector bodies also participate on a voluntary basis.

9 Table 1 shows examples of the data matches that we undertake and why. Where a match is found it indicates that there is an inconsistency that requires further investigation by the body. The investigation may detect instances of fraud, over or underpayments, and other errors. For example, payroll to housing benefit matches can identify employees who may be committing benefit fraud by not declaring their earnings; pension matches may identify a person as being listed as dead, but still in receipt of a pension.

10 A match does not automatically mean there is a fraud. Often there is a straightforward explanation for a data match that prompts bodies to update their records and to improve their systems.

Table 1: **Examples of the data matches the NFI undertakes**

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Payroll records to records of failed asylum seekers and records of expired visas.	Obtaining employment while not entitled to work in the UK.
Blue badges records to records of deceased people.	A blue badge being used by someone who is not the badge holder.
Housing benefit payments to records of housing tenancy.	Claiming housing benefit despite having a housing tenancy elsewhere.
Council tax records to electoral register.	A council taxpayer gets single person discount (SPD) because the person is living with other countable adults, which means the council taxpayer does not qualify for a discount.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

Source: Audit Commission

The NFI operates within a strong legal framework using secure web applications and systems

11 The NFI works within a strong legal framework, including the Data Protection Act 1998, which protects individuals' personal data.

12 Data matching exercises are carried out under statutory powers in Part IIA of the Audit Commission Act 1998, which contains important safeguards on the use and disclosure of data, including the requirement for a statutory *Code of Data Matching Practice*.

13 The Code helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards that the Commission has always considered essential to the effectiveness of the NFI. It also promotes good practice.

14 The NFI's data matching systems and processes comply with all relevant government information security standards.

Secure data transfer process

- Datasets are transferred by participants to the Audit Commission via a secure NFI website using an electronic transfer process which encrypts data on upload.
- All the matches are provided back to participants using the same secure tool.
- Access to the tool and NFI matches is controlled by secure password, and strict controls exist to ensure access is only provided to authorised individuals.

The NFI has helped participants find record levels of fraud, overpayment and error

15 Since we last reported in May 2010, the NFI has identified fraud, overpayments and errors in England totalling almost £229 million. This represents a 25 per cent increase on the total for the previous reporting period (£183 million)ⁱ.

16 The total comprises outcomes already delivered of £91 million and estimated outcomes of £137 million. These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

17 The main categories of fraud identified by the NFI in England since May 2010 continue to relate to pensions (£90 million), council tax (£50 million) and housing benefit (£31 million).

ⁱ For national reporting purposes, outcomes are collated at two-yearly intervals as at 31 March. Outcomes submitted by participants after this date are included in subsequent reports.

The exercise also produced other significant results

- 164 employees were dismissed or asked to resign because they had no right to work in the UK.
- 235 properties were recovered for social housing.
- 321 false applications were removed from housing waiting lists following a pilot with London borough councils.
- 731 people were prosecuted.
- 31,937 blue badges and 51,548 concessionary travel permits were cancelled.

Making the most of the NFI

18 Data matching showing little or no fraud and error assures councils about the effectiveness of their control arrangements. It also strengthens the evidence for their Annual Governance Statement. It can identify fraud, and therefore fraud risks, which the council was unaware of; and help identify fraud against other NFI participants.

19 The NFI's full potential is only realised if the bodies that take part (a) supply all the required data on time; and (b) undertake appropriate follow-up investigations of the matches promptly and thoroughly.

20 The more effectively councils follow up their NFI matches, the more benefits they get.

21 For each exercise we consider how well councils use the NFI taking into account the views of the external auditor. While most councils have sound arrangements in place for managing the NFI and for investigating data matches, there is still scope to do better.

- The NFI matches are not seen by some councils as a valuable source of intelligence and therefore they are not being given appropriate priority.
- Not all councils are making use of the tools within the web application to help them identify high-priority matches linked to local risks.
- Some councils are using alternative matching services from commercial providers before they have followed up their NFI matches.

Role of members

22 Councils that have the most successful counter-fraud strategies are generally those where there is strong support at a senior level, led by elected members, chief executives and directors of finance. These councils also have an effective anti-fraud culture in place, so employees have a clear understanding of the role they can play in tackling fraud.

23 We welcome increased engagement by elected members in the NFI. A checklist has been included on page 9, which contains a series of questions that members can put to the director of finance/NFI senior responsible officer. The responses will help members understand how the NFI is being used within their organisation and importantly identify if the benefits of participation are being maximised.

Looking to the future

24 Following the announcement, in August 2010, of its intention to abolish the Audit Commission, the government has confirmed it intends to continue the NFI. The Commission will work closely with the Department for Communities and Local Government and other stakeholders to secure the most appropriate home for the NFI.

25 While the Commission retains oversight of the NFI it will continue to develop the NFI to address emerging fraud risks, with an increasing focus on fraud prevention.

Real-time and flexible data matching

26 The NFI launched a real-time service in September 2011, marking an important shift from fraud detection to fraud prevention.

27 The Commission has consulted councils on how the real-time service should be expanded to help them target fraud prevention – for example, to identify the anomalies that may signal fraud before an application for a benefit or service is approved. The new service will offer a flexible range of options, including real-time and flexible batch data matching, and councils will be able to decide locally on the data they want to supply for matching.

28 These new approaches to real-time and flexible batch matching could help councils identify potential fraud in a wide range of areas. These could include:

- housing waiting lists – by submitting details of an individual near or at the top of the list for matching against the NFI datasets to confirm the individual is not ineligible for social housing before offering a tenancy;
- housing benefit – by submitting benefit claimant details for matching against the Metropolitan Police’s Amberhill information on known stolen/false identities before awarding benefit; and
- blue badges – by submitting applications for matching against deceased person records before issuing the badge.

29 These flexible services could be used by councils to deliver many of the recommendations made by NFA in its *Fighting Fraud Locally* strategy.

New fraud risks

30 In the Audit Commission’s annual survey of detected fraud in local government, councils have reported significant new fraud risks from the move to personal budgets in social services. In response, we are looking to develop a pilot data match in this area as part of the NFI 2012/13.

Widening the NFI for other purposes

31 We believe the NFI could secure even better outcomes if it were extended to cover non-fraud purposes, as the legislation already allows any Secretary of State to do. These other purposes are defined as being to assist in the:

- prevention and detection of crime other than fraud:

- apprehension and prosecution of offenders; and
- recovery of debt owing to public bodies.

Want to find out more about the NFI?

32 To find out more about the NFI, go to our web page, where you will find a copy of the May 2012 national report as well as other useful information.

www.audit-commission.gov.uk/fraud/nfi/

Table 2: **The NFI – A checklist for members**

Question	Answers/action required
<p>The NFI in our council</p> <ul style="list-style-type: none"> ■ What is the role/post of the senior responsible officer accountable for the NFI in our council? ■ Do we have a lead elected member for counter-fraud activity, including the NFI? ■ What role does our audit committee play? ■ How are other elected members or non-executive members kept informed of the NFI? ■ What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI? ■ Who decides and monitors this approach? ■ How is the NFI reflected in the governance training and development provided for officers and board/elected members? 	
<p>Maximising results</p> <ul style="list-style-type: none"> ■ What resources do we invest in the NFI? ■ What were our outcomes from the most recent NFI? ■ Are we ensuring we maximise the benefits of the NFI – for example, following up data matches promptly, recovering funds and prosecuting where possible? ■ What assurances have we drawn about the effectiveness of internal controls and the risks faced by the organisation? ■ What changes have we made as a result? ■ Do those responsible for the NFI in the council feel they get appropriate support from other managers in the council when investigating matches? 	
<p>Broadening our council's engagement with the NFI</p> <ul style="list-style-type: none"> ■ Are we taking advantage of the opportunity to suggest and participate in NFI pilot data matching? ■ Have we considered how we could use the new flexible batch and real-time matching services? 	
<p>Data Security</p> <ul style="list-style-type: none"> ■ What is our strategy/policy for data security? ■ Is there any specific reference to the NFI data security in the strategy 	
<p>The NFI fit with wider counter-fraud policies</p> <ul style="list-style-type: none"> ■ How does the NFI influence the focus of our counter-fraud work? ■ Does our counter-fraud policy include reference to the council's participation in the NFI? ■ Do we publicise the outcomes from the NFI? ■ How does the NFI influence how and what we communicate to the public about our approach to counter-fraud? ■ Are the outcomes from the NFI used to inform our wider decision making – for example, internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy? 	

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE
--

1.	Meeting:	Audit Committee
2.	Date:	19 December 2012
3.	Title:	Annual Review – Insurance and Risk Management Performance
4.	Directorate:	Resources

5. Summary

This report refers to the numbers and costs of insurance claims made against the Council.

The Council continues to have a very good and improving record in most areas. Proactive risk management measures are helping to reduce the number of claims made against the Council and effective monitoring / inspection systems are enabling the Council to successfully defend many claims that are received.

The report highlights areas where risk management action is helping to achieve the greatest savings in support of the Council's Medium Term Financial Strategy. It also shows areas where opportunities may exist to improve performance and reduce costs further.

6. Recommendations

The Audit Committee is asked:

- **to note the generally good performance of the Council in managing its risks and minimising successful insurance claims against the Council.**
- **to note the current issues referred to in Section 7.6 of the report.**

7. Proposals and Details

7.1 Insurance claims and costs 2002/03 to 2011/12

A summary of claims received by the Council over the past ten years, relating to the five main areas of insurance risk, is contained in the following table.

Numbers and Costs of Claims Received 2002/03 to 2011/12		
Area of Risk	No. of Claims	Cost of Claims
Public Liability	3,094	£4.111m
Employers' Liability	555	£4.018m
Highways	2,254	£1.752m
Motor Vehicle	3,646	£3.259m
Fire	73	£1.700m
2002/03 to 2011/12	9,622	£14.840m

On average, the Council has paid almost £1.5m per year on insurance claims over the last 10 years. The need to continue to invest in reducing the costs of accidents via improved management systems, work environment and training cannot be overstated, in order to keep the cost of claims as low as possible.

7.2 High Performing Areas

- School Fires
- Highways Trips and Slips
- Recovery of Uninsured Motor Vehicle Accident Losses
- School Fires

7.2.1 School Fires

Rotherham's claims record on fire across all properties is very good and our claims experience with regards to school fires is excellent.

School risk surveys arranged by the Council's Insurance and Risk Management Service have been used to highlight the needs of each school and the steps they could put in place to minimise the risk of claimable incidents. Subsequent risk management work has been agreed between building managers and head teachers, and implemented wherever possible. This work has provided the platform for the Council's exemplary record.

The Council now substantially out-performs other authorities, as can be seen from the table below, which is based on fires occurring since 2007.

	Rotherham	National Average	Difference +/-
	£	£	£

Average Cost per Claim	3,120	60,000	- 56,880
Cost of Claims per School per Year	27	896	- 869

The difference in performance, based on the number of schools at Rotherham, means that **the Council spends £97,000 less per year than the average figure on school fires.**

7.2.2 Highways Trips and Slips

Despite the emergence of numerous aggressive claims management companies in the last 10 years and their high-profile 'no win – no fee' marketing campaigns, Rotherham continues to manage highways risks very successfully. The current claim repudiation rate (i.e. closed without payment) of 89% makes the Council amongst the best performing in this regard.

Performance is shown in the table below.

Highways Liability PI Claims Performance 2006/07 to 2010/11				
Year	Claims Received	Settled at Nil	Total Claims Paid	Ave Cost per Claim
2007	191	161 (87%)	£141,894	£4,729
2008	202	182 (90%)	£147,158	£7,745
2009	160	127 (79%)	£226,193	£8,078
2010	284	259 (91%)	£103,447	£6,896
2011	375	337 (89%)	£39,636	£2,331

The Council's proactive highways inspection and maintenance regimes contribute significantly to this performance.

7.2.3 Recovery of Uninsured Motor Vehicle Accident Losses

Rotherham has historically self-funded all costs arising from accidental damage to its own motor fleet, even in instances where that damage had been incurred as a consequence of negligence on the part of a third party (i.e. non-fault claims).

However, at the end of 2005, the Risk Management Section appointed MAPS Legal Assistance on an initial one year basis to recover damages from third parties. Since taking on their first case in November 2005, MAPS has recouped over £148,000 for the authority in lieu of our repair costs.

7.3 Areas where performance is improving

- Employer's Liability Claims
- Motor Vehicle Claims

7.3.1 Employer's Liability Claims

Employer's Liability risk has been a concern for local authorities for some years, particularly in respect of degenerative type injuries including Vibration

White Finger, Noise Induced Hearing Loss, Manual Handling and Repetitive Strain Injury claims.

At Rotherham, the Health & Safety Team has carried out a wide range of risk management activities to minimise the risk of injuries and this is having a positive effect on both the number of claims received and the Council's ability to defend or minimise the payments made against such claims. This positive trend is demonstrated by the statistics below:

	2006/07	2007/08	2008/09	2009/10	2010/11	Total
Total No. Claims	62	49	45	43	39	238
Closed Claims – Paid	36	37	23	12	12	120
Closed Claims – Not Paid	26	10	20	21	6	83
No. Closed Claims - Total	62	47	43	33	18	203
Total Cost of Closed Claims	383.2k	575.9k	223.0k	140.0k	116.7k	1,438.8k

The statistics show:

- The number of claims is reducing year on year
- A reduction in the overall cost of claims paid to date.

7.3.2 Motor Vehicle Claims

The number of motor vehicle claims received has reduced year on year since 2007/08 from 455 to 208 in 2011/12 (a 54% reduction), as has the cost of claims from £590.3k to £119.0k (a 79% reduction).

It is acknowledged that the externalisation of the 2010 Repairs & Maintenance function, together with their vehicles, had a positive effect on these figures. However, other initiatives such as driver training and the installation of cameras on Refuse Collection Vehicles have also undoubtedly proved influential.

The re-centralisation of vehicles at Hellaby Depot has also proved beneficial. In addition, 106 claims have been received thus far in 2012/13, which suggests that further reductions may be realised at the end of the financial year.

7.4 Trips and slips on Housing owned footpaths & walkways

The Council's performance relating to claims for trips and slips on housing owned footpaths and walkways remains an area for possible improvement.

Since the termination of 2010 Rotherham Ltd in July 2011, 28 claims have been received relating to incidents occurring on Housing owned footpaths. Of

these, 24 remain outstanding with claim reserves totalling £160,400. Three have been settled without payment and 1 was settled at a cost of £6,900.

The implementation of a sound system of inspection would improve repudiation rates and cut costs to the authority in the medium term.

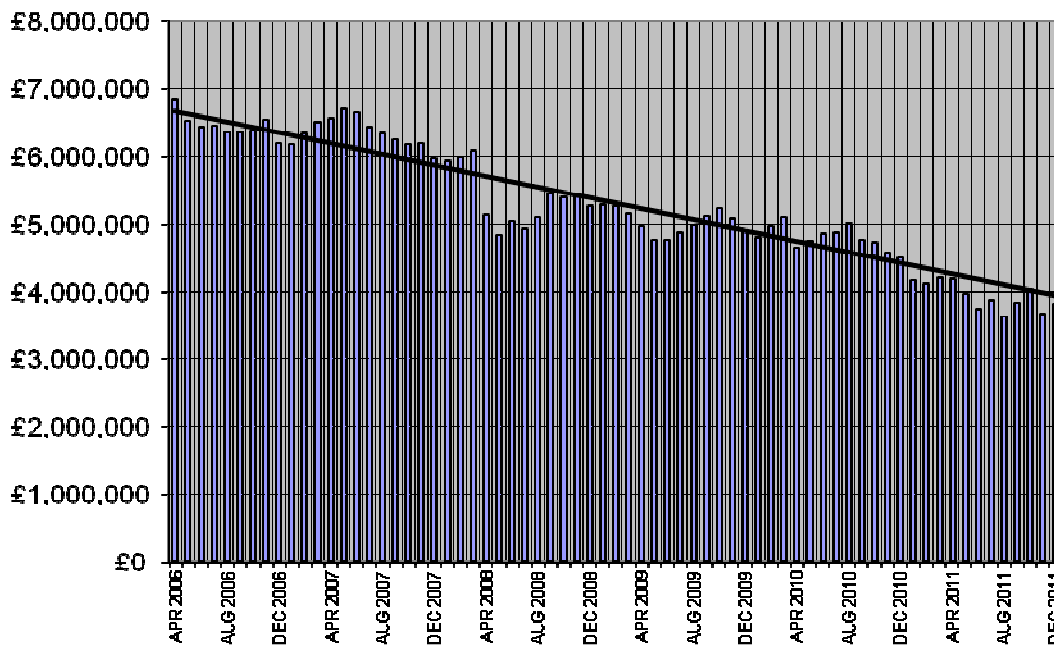
We are working with Housing Services in developing their approach.

7.5 The level of the Insurance Fund

The insurer's current compulsory policy excess (£100,000) means that 99% of claims settled are met directly out of the Council's Insurance Fund.

A gradual increase in claims up to 2006 led to an increase in the Insurance Fund provision required to meet estimated claims' costs. However, since 2006, strengthened risk management and a consequent reduction in claims have enabled the provision to be reduced significantly over this period.

The reduction in the numbers and costs of claims can be seen in the bar chart below. Monthly changes in the overall claims' provision and a trend line are shown in the chart.



The provision required to meet outstanding claims has reduced from £7.5 m in 2004 to £4.6m currently. This has enabled £2m to be released from the Insurance Fund to support the Council's General Fund budget position.

The Council needs to be continually alert to any new claims activity. Relatively new areas of claims activity such as disease caused by exposure to asbestos

dust/fibres and abuse-type claims emphasize the need for adequate management systems to manage risks in all areas.

In the past five years Rotherham has received three claims in respect of asbestosis. Two of the asbestosis claims were successfully defended but in the third, where the mother of an employee contracted the disease as a consequence of inhaling fibres whilst washing her son's work clothes, liability was attached to the Council.

The Council presently also has two high value on-going abuse-type claims.

The Council will appreciate that it will not take too many claims of this nature to affect the financial standing of the insurance fund.

7.6 Current issues

Municipal Mutual Insurance, Trigger Litigation – One of the Authority's previous insurers, Municipal Mutual Insurance (MMI), had been seeking clarification of its liability to indemnify policyholders in respect of historic employee mesothelioma claims, which led to test litigation known as the "Employers Liability Trigger Litigation". The outcome of this litigation was that the Supreme Court subsequently found against MMI.

This has led to MMI circulated a letter dated 13 November 2012 advising that the Company will have insufficient funds to meet its liabilities and confirming the Directors of the company had placed it into liquidation. Any shortfall in funding experienced by the Company has to be met by the mutual members, including Rotherham MBC.

An Administrator who has been appointed to deal with the Company's affairs is expected to give the Council an estimate of its potential liability in the near future. It is hoped the Insurance Fund can make a significant contribution towards any liability, thereby reducing any impact on the General Fund.

Claims Handling Protocols: 'The Jackson Reforms' – Following on from 2009's reduction in the time allowed to deal with Motor claims from 90 days to 15 days, it had been widely predicted for some time that similar measures would be applied to Public Liability claims in an attempt to address spiralling costs and speed up the legal process. This resulted in a review conducted by Lord Justice Jackson, known as 'The Jackson Reforms', the key task of which was to address disproportionate costs in civil litigation – i.e. to make it cheaper and more efficient.

The implementation of these reforms will place additional pressure on the Insurance and Risk Management Section and also colleagues within other Directorates involved in the collation of claims information. Whilst it is thought unlikely that the time allowed to reach a decision on liability will be cut as drastically as it was in the case of motor claims, both 30 and 45 days have

been mooted as possibilities. Failure to provide requisite information within the stipulated timescales could result in claims being lost by default.

Directorates will be notified of developments as and when the definitive liability period has been declared and will be assisted in complying with the new timescales.

8. Finance

Financial implications have already been identified elsewhere in this report, however, it should be stressed that the compulsory policy excess (£100,000 on each and every claim) means that the vast majority of claims are met directly from the authority's Insurance Fund.

9. Risks and Uncertainties

The Council attempts to prevent, minimise and control claims as outlined above. Positive action results in a decrease in the number of claims and settlement costs, a subsequent reduction in employee hours/costs incurred in investigating claims and a greater likelihood of reduced insurance premiums in the future as a consequence of an improved claims history.

To assist our attempts to prevent /minimise claims, the Council uses 10 free days Risk Management or Loss Control training provided by the Council's claims handlers; Gallagher Bassett. These days have helped officers to identify and implement improved risk management actions.

10. Policy and Performance Agenda Implications

Claims management procedures play an important role in both informing and influencing all elements of risk management. Risk management is one of the dimensions of good corporate governance. It is all encompassing and impacts on all areas of the Council's Policy and Performance Agenda.

11. Background Papers and Consultation

- CIPFA Insurance Benchmarking Surveys 2008 – 2011
- MMI Briefing Notes, August 2011 to date
- Gallagher Bassett, Risk Control Services Report, Version 4

Contact Names:

Colin Earl, Director of Audit and Asset Management, x22033

Andrew Shaw, Insurance and Risk Manager, x22088

