



# Audit and Risk Committee

19 September 2016

<b>Report Title</b>	Audit Services – Counter Fraud Update	
<b>Accountable Director</b>	Mark Taylor, Finance	
<b>Accountable employee(s)</b>	Peter Farrow	Head of Audit
	Tel	01902 554460
	Email	<a href="mailto:peter.farrow@wolverhampton.gov.uk">peter.farrow@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Not applicable	

---

## Recommendations for noting:

The Committee is asked to note:

1. The contents of the latest Audit Services Counter Fraud Update.

## **1.0 Purpose**

- 1.1 The purpose of this report is to provide Members with an update on current counter fraud activities undertaken by Audit Services.

## **2.0 Background**

- 2.1 The cost of fraud to local government is estimated at £2.1 billion a year. This is money that could be used for local services.
- 2.2 The Counter Fraud Unit was set up within Audit Services, in response to the increased emphasis being placed upon both fraud prevention and detection by the Department for Communities and Local Government.

## **3.0 Progress, options, discussion, etc.**

- 3.1 At the last meeting of the Audit and Risk Committee in July 2016, it was agreed that regular updates on the progress the Council was making in tackling fraud would continue to be brought before the Committee.

## **4.0 Financial implications**

- 4.1 There are no financial implications arising from the recommendation in this report.  
[GE/02092016/O]

## **5.0 Legal implications**

- 5.1 Investigations by the Counter Fraud Unit may have legal implications depending upon what action is taken or decided against in respect of those investigations.  
[TS/01092016/F]

## **6.0 Equalities implications**

- 6.1 There are no equalities implications arising from this report.

## **7.0 Environmental implications**

- 7.1 There are no environmental implications arising from this report.

## **8.0 Human resources implications**

- 8.1 There are no human resources implications arising from this report.

## **9.0 Corporate landlord implications**

- 9.1 There are no corporate landlord implications arising from the implications in this report.

## **10.0 Schedule of background papers**

- 10.1 None.

## Counter Fraud Update @ August 2016

CITY OF  
WOLVERHAMPTON  
COUNCIL



**Stronger  
Economy**



**Stronger  
Communities**



**Stronger  
Organisation**

# 1 Introduction

The counter fraud agenda is one that continues to hold significant prominence from Central Government who are promoting a wide range of counter fraud activities. The purpose of this report is to bring the Audit Committee up to date on the counter-fraud activities undertaken by the Counter Fraud Unit within Audit Services.

The Council is committed to creating and maintaining an environment where fraud, corruption and bribery will not be tolerated. This message is made clear within the Authority's Anti-Fraud and Corruption Policy, which states: "The Council operates a zero tolerance on fraud, corruption and bribery whereby all instances will be investigated and the perpetrator(s) will be dealt with in accordance with established policies. Action will be taken to recover all monies stolen from the Council."

# 2 The Counter Fraud Unit

The Counter Fraud Unit, which sits within Audit Services, is continuing to develop and lead in raising fraud awareness across the Council and in promoting an anti-fraud culture. The team carries out investigations into areas of suspected or reported fraudulent activity and organises a series of Council wide pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity. The team maintains the Council's fraud risk register, conducts raising fraud awareness seminars and holds fraud surgeries. In addition, they lead on the Cabinet Office's National Fraud Initiative (NFI) exercise.

# 3 Counter Fraud Update

## *Counter Fraud Plan*

The latest status of progress against the counter fraud plan is shown at Appendix 1

## *Whistleblowing Policy*

Whistleblowing is the term used when someone who works in an organisation raises a concern that could threaten customers, colleagues, the public or the organisation's own reputation. Audit Services manages the Council's Whistleblowing Policy and ensures any concerns raised are investigated. Key issues resulting from investigations are reported to the Audit and Risk Committee as part of the regular Investigations Update.

At the last Audit and Risk Committee meeting details of an annual review of the Whistleblowing Policy and Procedure, were reported. While 78% of those who responded were aware of the Whistleblowing Policy, a number of comments received suggested that employees should be made more aware of the Whistleblowing Policy, an action that was endorsed by the Committee. Therefore, in July 2016 the news item below appeared on City People which highlighted to employees of the Council details of the Whistleblowing Policy.





## Committee consider results of Whistleblowing Policy survey

Published on 13/07/2016

At last week's Audit and Risk Committee meeting, the results of a recent employee survey on the Council's Whistleblowing Policy and Procedure was presented.

This identified that while the majority of employees were aware of the policy, a limited number of employees were uncertain of where it could be found.

Councillor Craig Collingswood, the Chair of the Audit and Risk Committee said "As a confident and capable Council, I am pleased that we have a strong whistleblowing process in place should anyone feel the need to raise a concern, and employees can be assured that any such concerns will be addressed in a fair and transparent manner. Following on from the results of the survey, I have asked Audit Services to raise the profile of the policy through a series of activities, including City People".

Mark Wilkes, the Council's Counter Fraud Lead Officer responded: "We will use City People as the first of a number of planned activities, including arranging further raising fraud awareness seminars, drop-in surgeries and e-learning in order to help promote this policy. I would remind all employees that the Policy is available on the Council's [Policy Portal](#) and [website](#). To help anyone wishing to raise a concern a new online [whistleblowing reporting](#) facility has recently been added to the website".

He went on to say: "Information relating to wider fraud and corruption issues has also been extensively revised on the Council's [website](#). A new menu has been created which provides links to information and advice about all the key areas of fraud and corruption that may unfortunately impact on the Council. The information can be accessed by anyone and there is also a facility to report frauds online. Information is also provided about fraud types along with details of the Council's counter fraud activities."

The council website also provides links and contact details for the [Department of Work and Pensions \(DWP\)](#) in connection with housing benefit fraud and Wolverhampton Homes in connection with tenancy fraud.

### *National Anti-Fraud Network Intelligence Notifications*

The National Anti-Fraud Network (NAFN) issues regular alerts which provide information on fraud attempts, trends and emerging threats. The information provided in the alerts has been notified to NAFN by other local authorities from across the country. These alerts are checked to the Council's systems to verify whether there have been any instances at Wolverhampton. Since July 2016 there have been six alerts issued by NAFN, of those one impacted on a supplier used by the Council. The alert involved a fraudulent request to change bank mandate details from a legitimate organisation into their own bank account; however, the Council had not been subject to any fraudulent activity.

Another common fraud identified involved fraudsters hacking into phone systems and dialling premium / overseas numbers whilst the organisation is closed. This is particularly common at schools during holiday periods. A message below has been added to the Schools online bulletin.

## **School Bulletin**

*City of Wolverhampton*

*Issue No. 78 (21.07.16)*

### **PBX and Dial Through Fraud Affecting Schools**

Summary: The National Fraud Intelligence Bureau have issued this alert to provide knowledge and prevention advice to help schools protect themselves from PBX and dial through fraud.

#### **What is PBX Fraud?**

Private Branch Exchange (PBX) is a telephone switching system that connects internal telephones, as well as connecting them to the Public Switched Telephone Network (PSTN), Voice over Internet Protocol (VoIP) providers and Session Initiation Protocol (SIP) Trunks. The PBX will often allow access to voice messaging systems.

PBX/dial-through fraud occurs when hackers target these systems from the outside and use them to make a high volume of calls to premium rate or overseas numbers to generate a financial return. **The losses involved can be high, especially when they are made during times that a school may be closed, for example the summer holidays.**

*National Fraud Initiative*

The Counter Fraud Unit co-ordinates the investigation of matches identified by the Cabinet Office's National Fraud Initiative (NFI) data matching exercises. Where matches are identified the ensuing investigations may detect instances of fraud, over or underpayments, and other errors. A match does not automatically mean there is a fraud. Often there is another explanation for a data match that prompts bodies to update their records and to improve their systems. The latest NFI exercise commenced during January 2015 and the current outcomes are shown below.

Description	Previous value (£)	Current value (£)
Housing benefit claimants to student loans	53,272	53,272
Housing benefits claimants to pensions	8,420	8,420
Housing benefits claimants to in country immigration	42,224	42,224
Housing benefits claims to internal housing benefits claims	7,038	7,038
Housing benefits claims to external housing benefits claims	21,272	21,272
Waiting list to housing tenants	18,000	18,000
Waiting list to housing benefit claimants	0	23,000
Housing benefit claimants to council tax reduction	208	208
Council tax to electoral register	579	579
<b>Total</b>	<b>151,013</b>	<b>174,013</b>

Action is being taken to recover the value of the fraud and error wherever possible.

Since June 2015 the Department of Works and Pensions (DWP) has been responsible for investigating Housing Benefit matches where fraud has occurred. Investigators at the DWP have been granted access to the NFI matches and have continued to investigate and take appropriate action where fraud has been proven. The results are included above.

**New Single Person Discount Matching Exercise**

During July 2016 the Council received the results of the latest Council Tax data match to the updated Electoral Register. There were 4,614 initial matches plus a further 102 Council Tax rising 18 data matches\*. For this exercise a new approach is being adopted. Following an initial review approximately 4,000 of the matches will be sent to a credit reference agency to further validate whether there is evidence that more than one eligible person is living at a property. Action will be taken where it is identified that ineligible Council Tax discounts are being claimed.

\*Rising 18's are young people who have had the date that they become 18 years of age recorded on the Electoral Registration system. Once a person reaches 18 years of age, subject to certain exemptions, a household may no longer be eligible to receive single person discount.

*CIPFA's Annual Fraud and Corruption Tracker Report 2016*

During April 2015 the Council's Counter Fraud Unit submitted the completed annual fraud and error survey response to the Chartered Institute of Public Finance Accountants (CIPFA's). The information contained in the survey was used to produce the national Fraud and Corruption Tracker report (Appendix 3). The report identified that In 2015/16, an estimated 77,000 fraud cases worth £271m were detected or prevented by local authorities. Housing scams amounted to the highest value fraud type with 3,842 totalling £148.4m. Council tax fraud, such as falsely claiming the single occupancy discount, was the most common fraud type with 47,747 cases detected with a total value of £22.4m.

The report highlights a number of emerging risks. The number of fraud cases involving Right to Buy increased from 526 in 2014/15 to 870 in 2015/16. This risk is set to increase as the scheme is rolled out to housing associations in the coming year.

Procurement fraud, such as overcharging and falsely billing for goods and services, was also highlighted as a growing threat. The number of reported cases saw an increase from 114 cases in 2014/15 to 623 cases in 2015/16.

CIPFA recommend that local authorities work together to pool resources and information.

The key survey results for Wolverhampton were:

*Comparison of the last two Surveys*

	2014/15		2015/16	
Type of fraud and/or error	Cases	Value £	Cases	Value £
<b>Housing benefit</b> – resulting in a caution, administrative penalty or prosecution. (Fraud investigation became the responsibility of the DWP from 1 June 2015)	**187	£651,000	9	£40,000
<b>Tenancy sub-letting</b> (Wolverhampton Homes) – Illegal subletting of properties	18	*£324,000	16	*£288,000
<b>Other tenancy fraud</b> (Wolverhampton Homes) – fraudulent application, succession, abandonment or non-occupation	46	*£828,000	38	*£684,000
<b>Right to buy</b> (Wolverhampton Homes)	1	£26,000	1	£35,000
<b>Council tax discount</b> – single person discount as a result of fraud or error	***0	£0	931	£230,000
<b>Council tax reduction scheme</b>	69	£26,000	7	£4,600
<b>Personal Budgets</b>	0	£0	1	£1,800
<b>Debt fraud</b> – 10 x credit card chargebacks	1	£2,000	10	£2,400
<b>Payroll</b> – claiming for excessive hours	2	£0	2	£3,000

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

\*\* From 1 June 2015 the DWP became responsible for investigating Housing Benefit Matches.

\*\*\* Neither the Northgate or NFI SPD exercises were completed during 2014/15.

Action is taken to attempt to recover the value of the fraud and/or error where appropriate.



### *Fraud Data Warehouse*

As reported previously, Birmingham City Council has been operating a data warehouse for a number of years.

**Data warehouse:** storing data sets from across organisations and used for data matching purposes in order to identify and prevent potential fraud.

For the last five years their data warehouse has been used to hold tenancy data provided by 15 organisations including Wolverhampton Homes. The Council has been invited to participate in an initiative to expand the scope of the warehouse to include data which can be used to detect other types of fraud, starting with Council Tax fraud. To enable the data to be shared a data sharing agreement has been signed following review by the Council's Legal and Information Governance Teams. The extraction and transfer of Council Tax data through a secure web site will then take place on a regular basis. Further details of the progress made will be brought before the Committee as it becomes known.

### *Partnership Working*

As part of the partnership arrangements with Sandwell Metropolitan Borough Council the Fraud Team at Sandwell continues to assist in the implementation of the Council's Counter Fraud Plan. This work began in September 2015 and has involved carrying out investigations, addressing National Fraud Initiative matches and hosting fraud awareness seminars and surgeries. This joint approach will see an increase in shared information, working practices and the introduction of new counter fraud initiatives.

### *Fraud Risk Register*

The Counter Fraud Unit maintains the Council's fraud risk register. The register is used to help identify areas for testing and also to inform future audit assurance plans by focusing on the areas with the 'highest' risk of fraud. The latest fraud risk register is included at Appendix 2.

### *Midland Fraud Group*

This group consists of fraud officers from across the Midland's local authorities. The purpose of the group is to identify and discuss the outcome of initiatives being used to tackle fraud. At the last meeting in May 2016, topics discussed included Anti-Money Laundering checks, data warehouses, data matching, risk registers and current trends and cases of interest.

*Counter Fraud Plan Update*

Issue	Action	Timescale
Raising counter fraud awareness across the Council	Develop and deliver Fraud Awareness seminars	Seminars completed December 2015 and January 2016
	Develop on line fraud training for staff.	To be refreshed early 2017
	Work with Workforce Development to develop and promote fraud training.	Fraud seminars and surgeries promoted through City People  On-going use of online training package
	Establish measures for assessing the level of employee fraud awareness.	Early 2017
	Hold fraud surgeries to enable staff to report areas of suspected fraud.	Fraud surgeries undertaken in December 2015
	Use various forms of media to promote fraud awareness across the council including City People, the intranet and the internet.	Fraud seminars and surgeries promoted through City People
	In conjunction with the external provider Intec develop a fraud information and reporting App for use by the public.	Under development
	Work closely with Wolverhampton Homes and seek opportunities to promote joint fraud awareness.	On-going
Work with national, regional and local networks to identify current fraud risks and initiatives.	Maintain membership of the National Anti-Fraud Network (NAFN).	On-going
	Participate in the Cabinet Office's National Fraud Initiative (NFI) data matching exercises. Acting as key contact for the council, the West Midlands Pension Scheme and Wolverhampton Homes.	On-going
	Complete the annual TEICCAFI and CIPFA fraud surveys.	CIPFA Survey completed April 2016 TEICCAF survey to be completed later in 2016
	Investigate opportunities to develop the use of NFI real time and near real time data matching.	Used for Housing Waiting Lists – Summer 2016
	Participate in CIPFA's technical information service.	On-going
	Maintain membership of the Midlands Fraud Group.	On-going – next meeting September 2016

Issue	Action	Timescale
	Attend external fraud seminars and courses.	On-going
Assess the counter fraud strategy against best practice	Complete national fraud self-assessments, for example:	
	<ul style="list-style-type: none"> <li>New CIPFA Code of Practice</li> </ul>	June 2015 (the last time required)
	<ul style="list-style-type: none"> <li>The European Institute for Combatting Corruption And Fraud TEICCAF's- Protecting the English Public Purse</li> </ul>	Annually
	<ul style="list-style-type: none"> <li>Department for Communities and Local Government – ten actions to tackle fraud against the council.</li> </ul>	On-going
	<ul style="list-style-type: none"> <li>Consideration of fraud resilience toolkit</li> </ul>	On-going
Identify and rank the fraud risks facing the council	Manage the council's fraud risk register to ensure key risks are identified and prioritised.	On-going
	Develop measures of potential fraud risk to help justify investment in counter fraud initiatives.	On-going
	Seek opportunities to integrate the fraud risk register with other corporate risk registers and also the Audit Services Audit Plan	On-going
Work with other fraud investigation teams at the council	Develop good communication links between the Counter Fraud Unit, Wolverhampton Homes, and Audit Services.	Corporate Fraud Group established
	Maintain an overview of the progress made with the tenancy data sharing agreement between Wolverhampton Homes and Birmingham City Council.	On-going
	Establish a fraud data sharing agreement between Wolverhampton Council and Birmingham City Council.	Signed July 2016
Work with external organisations to share knowledge about frauds?	Establish formal joint working relationships with external bodies, for example Police, Health Service and Immigration Enforcement.	A number of joint investigations were completed with the Police during 2015/16.
Participate in external initiatives and address requests for information	Implement industry best practice as identified in reports produced by external bodies, for example; The TEICCAFI Annual Protecting the Public Purse report and the National Fraud Initiative report.	Annual/on-going
	Encourage Service Areas to participate in initiatives to identify cases of fraud.	Corporate Fraud Group established
	Look for opportunities to use analytical techniques such as data matching to identify frauds perpetrated	On-going

Issue	Action	Timescale
	across bodies, for example other councils.	
	Undertake a programme of proactive target testing.	On-going
	Respond to external requests for information or requests to take part in national initiatives.	On-going
All cases of reported fraud are identified, recorded and investigated in accordance with best practice and professional standards.	Work with Service Areas to develop methods of recognising, measuring and recording all forms of fraud.	Corporate Fraud Group established
	Manage and co-ordinate fraud investigations across the council.	On-going
	Implement and update the council's portfolio of fraud related policies in response to changes in legislation.	Latest version approved at Audit and Risk Committee – March 2016
	Where appropriate take sanctions against the perpetrators of fraud either internally in conjunction with Human Resources and Legal Services or externally by the Police.	On-going
Ensure responsibility for counter fraud activities is included in Partnership agreements with external bodies.	Embed responsibility for counter fraud activities in partnership agreements with the council's strategic partners.	On-going
	Partnership agreements to include the council's rights of access to conduct fraud investigations.	On-going
Provide the opportunity for employees and members of the public to report suspected fraud.	Manage and promote the Whistleblowing Hotline and record all reported allegations of fraud.	City People article – July 2016
	Promote and hold fraud surgeries that provide the opportunity for staff to discuss any potential fraudulent activity at the council.	Fraud surgeries undertaken in December 2015
	Seek other methods of engaging with employees and the public to report fraud.	On-going – for example through the council's internet site
	Where appropriate ensure allegations are investigated and appropriate action taken.	On-going
	Work with and develop procedures for carrying out investigations with other service areas for example Human Resources, Legal Services and Wolverhampton Homes.	Corporate Fraud Group established
Inform members and senior officers of counter fraud activities.	Report quarterly to the Audit Committee on the implementation of Counter Fraud initiatives and the progress and outcome of fraud investigations.	On-going



*Fraud Risk Register @ August 2016*

Themes	Potential fraud type	Risk rating
Housing Tenancy	Subletting for profit, providing false information to gain a tenancy, wrongful tenancy assignment and succession, failing to use the property as the principle home, right to buy. This risk is managed by Wolverhampton Homes.	Red
Council Tax	Fraudulently claiming for discounts and exemptions such as the single persons discount and Local Council Tax Support Schemes.	Red
Personal Budgets	Falsely claiming that care is needed, carers using direct payments for personal gain, carers continuing to receive direct payments after a person dies, duplicate applications submitted to multiple councils.	Red
Welfare Assistance	Fraudulent claims.	Amber
Procurement	Collusion (employees and bidders), false invoices, overcharging, inferior goods and services, duplicate invoices.	Amber
Business Rates	Evading payment, falsely claiming mandatory and discretionary rate relief, empty property exemption, charity status.	Amber
Payroll	'ghost' employees, expenses, claims, recruitment.	Amber
Blue Badge	Fraudulent applications, use and continuing to receive after a person dies.	Amber
Electoral	Postal voting, canvassing.	Amber
Schools	School accounts, expenses, procurement, finance leases.	Amber
Theft	Theft of council assets including cash.	Green
Insurance	Fraudulent and exaggerated claims.	Green
Manipulation of data	Amending financial records and performance information.	Green
Bank Mandate Fraud	Fraudulent request for change of bank details.	Green
Grants	False grant applications, failure to use for its intended purpose.	Green
Bribery	Awarding of contracts, decision making.	Green
Money Laundering	Accepting payments from the proceeds of crime.	Green