

CITY OF  
WOLVERHAMPTON  
COUNCIL

# Audit and Risk Committee

11 March 2019

|  |                                       |  |
|--|---------------------------------------|--|
| <b>Report Title</b>                        | Audit Services – Counter Fraud Update |  |
| <b>Accountable Director</b>                | Claire Nye                            | Finance  |
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| <b>Report to be/has been considered by</b> | Not applicable                        |  |

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## Recommendation for noting:

The Audit and Risk 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 Ministry of Housing, Communities and Local Government.

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

- 3.1 At the last meeting of the Audit and Risk Committee in December 2018, 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/25022019/R]

## **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/25022019/W]

## **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 this report.

## **10.0 Schedule of background papers**

- 10.1 None.



# Audit Services Counter Fraud Report @ March 2019

## 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 and Risk 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.

The team also provide a tenancy fraud investigation service to Wolverhampton Homes under a service level agreement.

## 3 *Counter Fraud Update*

### *Counter Fraud Plan*

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

### *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. This financial year there have been six alerts issued by NAFN, which either involved suppliers used by the Council or are applicable to all Councils. The appropriate sections of the Council have been alerted and it was confirmed that there was no impact at Wolverhampton. The most common alerts related to Bank Mandate fraud and cyber fraud including ransomware and email interception.

### *National Fraud Initiative Exercise 2018/19*

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 in January 2019 and a total of 9,956 matches have been released of which the Cabinet Office has identified 3,473 as representing a

greater risk of fraud. As the Cabinet Office continues to develop and refine the NFI exercise it is anticipated that further matches may be released in the coming months. Work has now commenced to investigate the various categories of matches based on the risk indicators. Details of the progress made will be brought before the Committee as it becomes known.

#### *National Fraud Initiative HMRC Pilot*

The Council has been selected as one of only ten Local Authorities to take part in a pilot NFI exercise where HMRC data has been matched to the Council's data for the first time. This is a significant development for the NFI project. HMRC hold information about household composition, household earnings and property ownership. The pilot is designed to test the usefulness of the matches in identifying fraud and error. Feedback from the Council will be used to help refine the matches and to ensure the maximum impact is achieved from the exercise. It is anticipated that matches to HMRC data will be incorporated into the national exercises for all Councils, in future years. The outcomes of the pilot will be reported to future meetings of this Committee.

#### *Counter Fraud Team - Tenancy Fraud Performance*

The Counter Fraud Teams Tenancy Fraud results for April 2018 to January 2019 are shown in the following tables:

|   | April 2018 – January 2019 |
|---|---------------------------|
| Type of fraud and/or error                              | Number                    |
| Total Number of Referrals Received                      | 114                       |
| Open referrals being investigated                       | 10                        |
| Anti-Money Laundering – Right to Buy Checks             | 287                       |
| Residency Duration Checks for Right to Buy Applications | 59                        |

Further details of the above figures are included below.

|   | April 2018 – January 2019 |                |
|---|---------------------------|----------------|
| Type of fraud and/or error  | Cases                     | *Value £       |
| Tenancy sub-letting – Illegal subletting of properties which were recovered   | 5                         | 465,000        |
| Right to buy – preventing fraudulent RTB applications   | 1                         | 65,000         |
| Other tenancy fraud – succession, abandonment or non-occupation – legal action required where fraudster fails to hand keys back | 2                         | 186,000        |
| <b>Total</b>  | <b>8</b>                  | <b>716,000</b> |

\* The savings figures for tenancy fraud are based on methodology and calculations produced by the Cabinet Office in support of the National Fraud Initiative. The figures include:

**Social housing tenancy fraud** - Notional £93,000 (previously £18,000). The increase in the notional savings recognises the future losses prevented from recovering the property. Previously the calculation only considered one year's loss.

**Social housing application fraud** – Notional £36,000 (previously £8,000). The increase in the notional savings recognises the future losses prevented by not letting the property to an ineligible individual and with the potential of having to place a genuine prospective tenant from the waiting list in expensive

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temporary accommodation. There is no allowance in this calculation for past value fraud and therefore the notional loss is less than that of social housing tenancy fraud.

**Right to Buy fraud** – Notional £65,000 (previously the exact figure was used). The notional saving for a Right to Buy (RtB) application that has been withdrawn is calculated by the Cabinet Office based on the region in which the property is based, the increases in the maximum RtB cap and the changes in average house prices. This method allows for benchmarking to be carried out.

### *Partnership Working*

The partnership arrangement with Sandwell Metropolitan Borough Council, is continuing with the Fraud Team at Sandwell assisting in the implementation of the Council's Counter Fraud Plan, including carrying out investigations. 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 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. Due to Bank Mandate fraud becoming increasingly prevalent and the methods used more sophisticated, the level of risk has been reassessed and increased from 'green' to 'amber' in the Fraud Risk Register.

### *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 February 2019 discussions were held on the National Fraud Initiative, DWP joint working and cases of interest.

Counter Fraud Plan Update

| Issue   | Action   | Timescale  |
|---|--|--|
| Raising counter fraud awareness across the Council  | Develop and deliver Fraud Awareness seminars   | Fraud based training provided by Natwest Bank June 2017  |
|   | Develop on line fraud training for staff.  | To be refreshed Spring 2019  |
|   | Work with Workforce Development to develop and promote fraud training.   | Fraud seminars and surgeries promoted through City People<br><br>On-going use of online training package |
|   | Establish measures for assessing the level of employee fraud awareness.  | Spring 2019  |
|   | Hold fraud surgeries to enable staff to report areas of suspected fraud.   | Fraud surgeries planned for Spring 2019  |
|   | Use various forms of media to promote fraud awareness across the Council including City People, the intranet and the internet. | Fraud seminars and surgeries will be promoted through City People  |
|   | 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).   |
| 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. Latest exercise commenced January 2019   |
| Complete the annual CIPFA fraud survey.   |  | CIPFA Survey completed June 2018   |
| Investigate opportunities to develop the use of NFI real time and near real time data matching.   |  | Used for additional Single Person Discount data match  |
| Participate in CIPFA's technical information service.   |  | On-going   |
| Maintain membership of the Midlands Fraud Group.  |  | On-going – last meeting February 2019 next meeting Summer 2019   |
| Attend external fraud seminars and courses.   |  | NAFN Counter Fraud Summit October 2018<br><br>Midland Fraud Forum Conference – February 2018             |

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| Issue  | Action  | Timescale   |
|--|---|---|
| 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>• CIPFA Counter Fraud Tracker Survey</li> </ul>  | Annually  |
|  | <ul style="list-style-type: none"> <li>• The former 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.   | November 2017 - Wolverhampton Homes Tenancy Fraud Team transfer to Council's Counter Fraud Unit |
| 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.  | On-going  |
| Participate in external initiatives and address requests for information   | Implement industry best practice as identified in reports produced by external bodies, for example; Cipfa's Annual Fraud Tracker Survey 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 across bodies, for example other Councils.                               | On-going  |
|  | 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.   | As reported back to the Audit and Risk Committee on a quarterly basis                           |



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| Issue  | Action   | Timescale  |
|--|--|--|
|  | 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 2018 |
|  | 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 – planned for Spring 2019                    |
|  | Promote and hold fraud surgeries that provide the opportunity for staff to discuss any potentially fraudulent activity at the Council.                                   | Fraud surgeries planned for Spring 2019                          |
|  | 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 @ March 2019*

| 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 person's 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         |
| Cyber Security       | Using technology as a tool to commit acts of fraud – this currently has a very high profile and is an ever-increasing area susceptible to fraud   | 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 by others and continuing use after a person dies.  | Amber       |
| Electoral            | Postal voting, canvassing.  | Amber       |
| Schools              | School accounts, expenses, procurement, finance leases.   | Amber       |
| Bank Mandate Fraud   | Fraudulent request for change of bank details (increased following a recent case).  | Amber       |
| Theft                | Theft of Council assets including cash (increased following a recent case).   | Amber       |
| Insurance            | Fraudulent and exaggerated claims.  | Green       |
| Manipulation of data | Amending financial records and performance information.   | 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       |

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