



Audit (Monitoring of Audit Investigations) Sub Committee

21 July 2014

Report Title	Audit Services – Counter Fraud Report July 2014	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Accountable director	Keith Ireland, Delivery	
Originating service	Delivery/Audit	
Accountable employee(s)	Peter Farrow Tel Email	Head of Audit 01902 55(4460) peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendations for noting:

The Sub-Committee is asked to note:

The contents of the latest Internal Audit 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, predominantly through the work of, what was, the National Fraud Authority and its “Fighting Fraud Locally: The Local Government Fraud Strategy”.

3.0 Progress, options, discussion, etc.

- 3.1 At the last meeting of the Audit Sub-Committee in April 2014, it was agreed that regular updates on the progress the Council was making in tackling fraud would continue to be brought before the Sub-Committee.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendation in this report.
[GE/03072014/A]

5.0 Legal implications

- 5.1 There are no direct legal implications arising from this report.
[RB/04072014/U]

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 Schedule of background papers

- 9.1 None.

Wolverhampton

City Council



Audit Services – Counter Fraud Report July 2014



1 Introduction

The counter fraud agenda is one that has recently gained 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 Sub-Committee up to date on the counter-fraud activities undertaken by the Counter Fraud Unit within Audit Services.

Wolverhampton City 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, and hosts raising fraud awareness seminars and fraud surgeries. An anti-fraud and corruption newsletter is also produced. In addition they lead on the Audit Commission's National Fraud Initiative (NFI) exercise.

3 Counter Fraud Update

Counter Fraud Plan

The latest status of progress against the Counter Fraud Plan 2013/15 is shown at Appendix 1

Corporate approach to fighting fraud

The benefit fraud team is also exploring new areas of fraud beyond the scope of its traditional investigations, for example, data matching of the Council's employees to identify cases where the individual has failed to declare changes in circumstances. Other areas of fraud currently being considered are Taxi drivers, scrap recyclers and landlords. There is also an increased emphasis on joint working with the DWP and other services such as Wolverhampton Homes (for tenancy and right to buy fraud).

Outcomes of Benefit Fraud Investigations 2014/15

The Benefit Fraud Investigation Team is now a part of Audit Services. The table below identifies the value and number of benefit fraud overpayments resulting from investigations to the end of June 2014. A total of 94 investigations have been completed. These resulted in overpayments which either did not meet the criteria for a sanction to be invoked or overpayments which resulted in a sanction or a prosecution, penalty or a caution. Overpayments are recovered through established Council systems, for example, by revenues and benefits or through the debtor systems.

Sanction	Value of overpayment £	Number of cases
Non Sanction Over Payment	£133,000	46
Prosecution Over Payment	£33,000	3
Penalty Over Payment	£2,000	3
Caution Over Payment	£000	1
Total	£168,000	53

Examples of recent successful prosecutions are included at Appendix 2.

Benefit Fraud Investigation Team

The Department for Work and Pensions (DWP) is creating a Single Fraud Investigation Service (SFIS). The new SFIS service will combine the DWP and part of what was the local authority benefit fraud investigators into a single team, managed by the DWP. It is anticipated that some benefit fraud employees, currently working for the council, may transfer over into SFIS under arrangements similar to TUPE. For Wolverhampton employees the transfer is planned to take place on 1 June 2015. Further details will be brought before the Committee as they become known.

CIPFA Counter Fraud Centre

The National Fraud Authority (NFA) closed on 31 March 2014 and most of its functions transferred to the National Crime Agency, the City of London Police, the Home Office and the Cabinet Office. In addition to the above organisations the Chartered Institute of Public Finance Accountants (CIPFA) has been appointed to take over the specific activities of the NFA which relate to Local Government. In response, CIPFA has established a Counter Fraud Centre which will become responsible for promoting counter fraud activities in local government.

CIPFA has recently conducted a consultation which considered the establishment of a Code of Practice along with sector specific guidance. Wolverhampton has provided a response to the consultation in conjunction with Sandwell MBC.

During June 2014, Audit Services attended a launch meeting for the Counter Fraud Centre. At the meeting the objectives of the Centre were discussed. It was identified that a key issue for the Centre is to engage with all public bodies and in particular Central Government.

The Counter Fraud Centre is in the process of re-launching the 'Fighting Fraud Locally Strategy' which was originally produced by the NFA. Wolverhampton's approach to fighting fraud is in line with the Fighting Fraud Locally Strategy.

Annual Fraud Survey

During May 2014 the Council's Counter Fraud Unit submitted the completed annual fraud survey response to the Audit Commission. The information contained in the survey will be used to produce the 'Protecting the Public Purse' report which will be published in November 2014. The key survey results for Wolverhampton are included in the following table:

Type of Fraud	No. of cases	Value £
Housing benefit / Council tax benefit – resulting in a caution, administrative penalty or prosecution.	117	£586,000
Tenancy sub-letting (Wolverhampton Homes) – Illegal subletting of properties	11	*£198,000
Other tenancy fraud (Wolverhampton Homes) – fraudulent application, succession, abandonment or non-occupation	28	*£504,000
Right to buy (Wolverhampton Homes)	3	£90,000
Council tax discount – single person discount	1507	£459,000
Council tax reduction scheme	6	£1,000
Procurement - grants	1	£10,000
Pension fraud – deceased persons	8	£16,000
Debt fraud – 18 x credit card chargebacks	18	£1,800
Other fraud – 3 x payroll, 2 x expenses, 1 x abuse of position.	6	Not recorded

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

Action is being taken to recover the value of the fraud where appropriate.

Commencing 2015 the Chartered Institute of Public Finance Accountants (CIPFA's) 'Counter Fraud Centre' will be responsible for managing the annual fraud survey and publishing the resulting 'Protecting the Public Purse' report.

National Fraud Initiative

The Counter Fraud Unit is continuing to co-ordinate the investigation of matches identified by the Audit Commissions 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 on-going value of frauds and errors identified during the current NFI exercises at the end of May 2014 are:

Description	Previously Reported (£)	Current value (£)
Housing benefit claimants to student loans (2013)	39,820	57,689
Housing benefit claimants to student loans (2014)	0	4,487
Housing benefit claimants to WCC payroll	1,450	1,450
Housing benefits claimants to WCC pensions	18,053	18,053
Housing benefit claimants to external payrolls	4,724	4,724
Housing benefits claimants to external pensions	41,654	41,654
Housing benefits claims to external housing benefits claims	1,770	1,770
Housing benefits claims to external housing tenants	360	360
Pension gratuity to DWP deceased records	16,005	16,005
Overpaid VAT	4,474	4,474
Duplicate invoice records (different creditors)	5,246	5,246
Single person discount	95,063	95,063
Rising 18's	12,879	12,879
Total	241,498	263,854

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

National Fraud Initiative National Report 2014

During June 2014 the Audit Commission published its annual report which identifies progress made with the National Fraud Initiative. The key areas for detecting fraud are Housing Benefit, Tenancy, Single Person Discount and Pension frauds. In accordance with the report at Wolverhampton these areas of fraud are being actively pursued.

On 1 April 2015 the Cabinet Office will become responsible for managing and conducting the National Fraud Initiative (NFI). In addition to the established NFI exercises which are currently completed every two years, more frequent data matching exercises have been introduced using a flexible data matching tool, for example, housing benefits to student loans.

The scope of the NFI is planned to expand to include new areas of fraud, for example, personal budgets. In addition, new participants are being encouraged to take part in the initiative, for example, Housing Associations.

The report has also raised concerns whether Council's will retain sufficient capability to investigate non benefit fraud once the Single Fraud Investigation Service has been established.

Corporate Fraud Group

The Counter Fraud Unit chaired the third Corporate Fraud Group meeting which was held in May 2014. The Group brings together Council officers from a number of service areas that deal with potential frauds perpetrated by either the public or businesses. Many officers already have informal arrangements in place for exchanging information about fraudulent activity however; many of these rely on personal contacts. It was identified that by developing a better understanding of the types of frauds facing the Council, officers will be able to establish formal arrangements for the exchange of information and to work together when conducting investigations.

At the June meeting topics discussed included fraud related to legislation, immigration status, data matching, publicity and cases of interest.

Midland Fraud Group

The Midlands Fraud Group held a meeting during June 2014. The group consists of fraud officers from across the Midlands local authorities. The purpose of the group is to identify and discuss the outcome of initiatives being used to tackle fraud. At the June meeting topics discussed included fraud related to procurement, direct payments and measurement of fraud. Other issues discussed included the Single Fraud Investigation Service, the National Fraud Initiative and cases of interest.

Social Housing Fraud Funding 2013-15

Wolverhampton Homes has received the second and final instalment of £97,000 awarded as part of a Central Government Grant of £200,000 to tackle social housing fraud. While the funding is primarily for tackling housing tenancy fraud, the council and Wolverhampton Homes will work in partnership to maximise the benefit of the funding in tackling fraud across the Council.

Fraud Risk Register (Appendix 3)

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

Counter Fraud Plan 2013-15 update

Issue	Action	Timescale
Raising counter fraud awareness across the council	Develop and deliver Fraud Awareness seminars for managers and supervisors	Completed April, May & June 2013
	Develop on line fraud training for staff.	Completed October 2013
	Work with Workforce Development to develop and promote fraud training.	Ongoing use of online training package
	Establish measures for assessing the level of employee fraud awareness.	Summer 2014
	Hold fraud surgeries to enable staff to report areas of suspected fraud.	Latest surgeries held March 2014
	Periodically issue a fraud and corruption newsletter.	Latest issue March 2014
	Use various forms of media to promote fraud awareness across the council including City People, the intranet and the internet.	City People Article and message on reverse of payslips March 2014
	Work closely with Wolverhampton Homes and seek opportunities to promote joint fraud awareness.	Message on reverse of payslips March 2014
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 Audit Commission'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 Audit Commission fraud survey.	Completed May 2014
	Investigate opportunities to develop the use of NFI real time and near real time data matching.	Used for Pensions Gratuities – January 2014 To be used for Personal Budgets – Summer 2014
	Participate in CIPFA's technical information service.	On-going
	Maintain membership of the Midlands Fraud Group.	On-going – Latest meeting June 2014
	Attend external fraud seminars and courses.	On-going

Issue	Action	Timescale
Assess the counter fraud strategy against best practice	Complete national fraud self-assessments, for example:	
	<ul style="list-style-type: none"> • CIPFA Red Book 2 	Completed for 2013 Annual
	<ul style="list-style-type: none"> • Audit Commissions - Protecting the Public Purse 	May 2014 Annual
	<ul style="list-style-type: none"> • Department for Communities and Local Government – ten actions to tackle fraud against the council. 	April 2014
Identify and rank the fraud risks facing the council	Manage the council's fraud risk register to ensure key risks are identified and prioritised.	Substantially completed continue to refine Summer 2014
	Develop measures of potential fraud risk to help justify investment in counter fraud initiatives.	Summer 2014
	Seek opportunities to integrate the fraud risk register with other corporate risk registers and also the Audit Services Audit Plan	Summer 2014
Work with other fraud investigation teams at the council	Develop good communication links between the Counter Fraud Unit, the Benefits Investigation Team, Wolverhampton Homes, and Audit Services.	Fraud Group established – latest meeting May 2014
	Maintain an overview of the progress made with the tenancy data sharing agreement between Wolverhampton Homes and Birmingham City Council.	Ongoing
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.	Autumn 2014 onwards
Participate in external initiatives and address requests for information	Implement industry best practice as identified in reports produced by external bodies, for example; The Audit Commissions Annual Protecting the Public Purse report and the National Fraud Initiative report.	Annual ongoing
	Encourage Service Areas to participate in initiatives to identify cases of fraud.	Fraud Group established – latest meeting May 2014
	Look for opportunities to use analytical techniques such as data matching to identify frauds perpetrated across bodies, for example other councils.	Summer 2014 onwards
	Undertake a programme of proactive target testing.	Summer 2014 onwards
	Respond to external requests for information or requests to take part in national initiatives.	Summer 2014 onwards

Issue	Action	Timescale
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.	Fraud Group established – latest meeting May 2014
	Manage and co-ordinate fraud investigations across the council.	Ongoing
	Implement and update the council's portfolio of fraud related policies in response to changes in legislation.	New policies approved March 2014
	Where appropriate take sanctions against the perpetrators of fraud either internally in conjunction with Human Resources and Legal Services or externally by the Police.	Ongoing
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.	Ongoing
	Partnership agreements to include the council's rights of access to conduct fraud investigations.	Ongoing
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.	Frauditor and payslips March 2014
	Promote and hold fraud surgeries that provide the opportunity for staff to discuss any potential fraudulent activity at the council.	Latest surgeries held 5 th & 12 th March 2014
	Seek other methods of engaging with employees and the public to report fraud.	Frauditor, payslips and City People – March 2014
	Where appropriate ensure allegations are investigated and appropriate action taken.	Ongoing
	Work with and develop procedures for carrying out investigations with other service areas for example Human Resources, Legal Services, Benefits Fraud Team and Wolverhampton Homes.	Fraud Group established – latest meeting May 2014
Inform members and senior officers of counter fraud activities.	Report quarterly to the Audit Sub Committee on the implementation of Counter Fraud initiatives and the progress and outcome of fraud investigations.	April 2014 onwards quarterly

Details of recent benefit fraud prosecutions

Case 1

A claimant started to receive housing benefit in 2008, as a single person. An anonymous allegation was received suggesting that the father of the claimant's child is now living at the property. An investigation was conducted and from extensive background checks it was implied that the child's father had lived at the property from May 2009. Further enquires identified that the father was working full time and earning over £450 per week. The records obtained showed the father had used the claimants address to purchase goods and services and to obtain credit. The claimant then had a second child with the same father. The claimant did not notify the Council of her change in circumstance and even made a further application for a discretionary payment to help with rent arrears and utility bills.

In total £34,251 was claimed between 11 May 2009 and 8 July 2013 comprising £16,173 in housing benefit, £3,440 in council tax benefit and £14,637 in income support.

The claimant pleaded guilty to two charges of dishonestly failing to notify authorities of a change of circumstances affecting her entitlement to benefits. She received two six month prison sentences each suspended for two years and to run concurrently. She was ordered to pay £1,195 costs, £80 victim surcharge and to pay back the overpayment.

Case 2

A claimant started to receive housing benefit in April 2010, at which time he claimed he was not working and had no other income. Bailiffs pursuing council tax debt tipped off revenues staff about the claimant's employment. Evidence was collected by council investigators working jointly with the Department for Work & Pensions to establish that the claimant was working six days a week as a Market Trader in Walsall, Willenhall and Stoke-on-Trent. The initial claim was false and he made four further fraudulent claims. The claimant was interviewed and denied the deception. However, shortly after the interview he cancelled his benefit claim, stating he had started working 40 hours per week as a Market Trader.

The claimant fraudulently claimed £15,021 in housing benefit, jobseekers allowance and council tax benefit. The claimant pleaded guilty to eight counts of dishonestly making a false statement to obtain benefits. He was sentenced to 12 weeks custody suspended for 12 months and ordered to pay £600 costs and to pay back the overpayment.

Case 3

A claimant started to receive housing benefit in January 2011. However, in September 2011 the claimant started a full time course at the University of Wolverhampton and received student finance for his living costs.

The claimant fraudulently obtained £9,884 between September 2011 and July 2013. When making the claim the claimant signed a declaration that he must inform the Department for Works and Pensions and the Local Authority of any change in circumstance, including any

part-time or full time education. The claimant told the court that he didn't know he had to notify the authorities. He said he was lazy and did not read the application.

The claimant pleaded guilty to two charges of failing to notify a change of circumstance and was given a 12 month community order with 100 hours of unpaid work and £500 costs and he must also pay back the overpayment.

Fraud Risk Register @ July 2014

Appendix 3

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.	Red
Housing Benefit	Claiming benefits to which not entitled	Red
Council Tax	Fraudulently claiming for discounts and exemptions such as the single persons discount, 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 (staff 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