

# Audit and Risk Committee

12 December 2016

**Report Title**                      Audit Services – Counter Fraud Update

**Accountable Director**              Mark Taylor, Finance

**Accountable employee(s)**      Peter Farrow                      Head of Audit  
Tel                                      01902 554460  
Email                                 peter.farrow@wolverhampton.gov.uk

**Report to be/has been  
considered by**                      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 September 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.  
[MK/29112016/H]

## **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/0112016/C]

## **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 @ November 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

### *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 August 2016 there have been twenty alerts issued by NAFN, and none impacted on suppliers used by the Council. Six of the alerts 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 such fraudulent activity.

### *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	82,720
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
Pensions / Pension Gratuity to DWP Deceased	0	58,811
Waiting list to housing tenants	18,000	18,000
Waiting list to housing benefit claimants	23,000	23,000
Housing benefit claimants to council tax reduction	208	208
Council tax to electoral register	579	579
<b>Total</b>	<b>174,013</b>	<b>262,272</b>

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

The West Midlands Pension Fund has been investigating matches identified by the 'Pensions / Pension Gratuity to DWP Deceased' match. Details have been updated on the NFI web site and included in the above table for the first time. Five cases of overpayment have been identified of which one case accounts for £44,000. Action is being taken to recover overpayments and to determine whether a fraud has been committed.

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 were sent to a credit reference agency to further validate whether there is evidence that more than one eligible person is living at a property. This has resulted in approximately 1,350 accounts being identified as having a high probability that more than one person is resident. Residents at these properties are being contacted and where appropriate the discount will be removed.

\*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.

### **National Fraud Initiative Exercise 2016/17**

The next NFI data matching exercise commenced during October 2016 with the submission of data sets from across the Council. The Council's data will be cross matched

This report is PUBLIC [NOT PROTECTIVELY MARKED]

with data submitted by almost 1,300 other bodies including local and central government and the Department of Works and Pensions. The results of the matches will be available at the end of January 2017.

### *Cabinet Office – National Fraud Initiative Report 2016*

During November 2016 the Cabinet Office published its first report, which identifies progress made with the National Fraud Initiative (NFI), since taking responsibility for the exercise in 2015 (Appendix 3). The report identifies around £200 million of potential fraud, overpayments and error in England over a range of different fraud types, but acknowledges that this is just the tip of the iceberg. The key areas for detecting fraud are Tenancy, Single Person Discount and Pension frauds.

The Cabinet Office has established a Fraud, Error and Debt Team to provide expertise in reducing fraud loss. The NFI continues to be developed to address emerging risks and to maximise the use of the data gathered for the exercise.

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, single person discount to the electoral register.

The scope of the NFI continues to be expanded and the 2016/17 exercise now includes matches for personal budgets, housing waiting lists and council tax reduction. In addition, new participants are being encouraged to take part in the initiative, for example, Housing Associations. The Cabinet Office will continue to develop the NFI by embracing new technology and seeking to embed NFI into the internal controls of organisations.

### *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. A method of extracting and securely uploading Council Tax data through a secure web site is being developed and once established data will be uploaded 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 September 2016, topics discussed included, National Fraud Initiative, Anti-Money Laundering checks, Council Tax Reduction, Social Housing Fraud 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
	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 TEICCAF and CIPFA fraud surveys.	CIPFA Survey completed April 2016 TEICCAF survey completed September 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 early 2017
	Attend external fraud seminars and courses.	NAFN Summit – November 2016  West Midlands Economic Crime Unit

Issue	Action	Timescale
		Fraud in the Workplace Seminar-- October 2016  TEICCAF Direct Payments Workshop – October 2016  TEICCAF Business Rates Workshop – September 2016  NAFN Roadshow – May 2016  Midlands Fraud Forum Annual Conference – February 2016
Assess the counter fraud strategy against best practice	Complete national fraud self-assessments, for example:	
	<ul style="list-style-type: none"> <li data-bbox="496 909 927 943">• New CIPFA Code of Practice</li> </ul>	June 2015 (the last time required)
	<ul style="list-style-type: none"> <li data-bbox="496 981 1134 1077">• 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 data-bbox="496 1111 1078 1211">• Department for Communities and Local Government – ten actions to tackle fraud against the council.</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

Issue	Action	Timescale
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 TEICCAF 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 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
	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

Issue	Action	Timescale
	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 @ November 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
<b>NEW:</b> 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 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