



Audit (Monitoring of Audit Investigations) Sub Committee

3 November 2014

Report Title	Audit Services – Counter Fraud Report October 2014	
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Resources	
Accountable Strategic Director	Keith Ireland, Delivery	
Originating service	Delivery/Audit	
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Report to be/has been considered by	Not applicable	

Recommendations for noting:
The 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 July 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/20102014/G].

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. [KR/22102014/S].

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.

Wolverhampton

City Council



Audit Services – Counter Fraud Report October 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

Department for Communities and Local Government (DCLG) Fraud Funding Bids

The DCLG has invited local authorities to bid for funding to increase their capability and capacity in tackling non-benefit fraud. The Council has submitted a bid for funding to develop a Fraud Intelligence Hub. In addition, the Council has also entered into partnership agreements for two further joint bids for counter fraud funding. Brief descriptions of the applications are provided below.

- **Fraud Intelligence Hub**

Fraudsters potentially perpetrate multiple frauds on the basis that some Council systems make the sharing of information difficult. The objective of the Fraud Intelligence Hub is to build a profile of potential fraudsters who may be committing a number of frauds. The Hub will enable information from all Council Services to be pooled and the extent of frauds committed against the Council fully recognised. The outcome will be to use the intelligence to ensure potential multiple fraudsters are investigated, prosecuted, losses recovered and the intelligence used to identify and prevent further attempted frauds.

- **Regional Intelligence and Forensic Analysis Hub**

The Council is supporting a bid to fund the ongoing development of a Regional Fraud Intelligence Hub. The Hub currently enables participating Midland Local Authorities to securely provide data which can be used to identify potential fraudulent activity. However, this current Regional Hub is restricted to social housing fraud. If the bid is successful the additional funding will be used to extend the scope of the Hub to include other types of fraud and to involve more Midland Local Authorities. Each participant will have online real-time access to intelligence which can be used to prevent fraud. In addition, targeted data matching exercises will be completed to detect fraud that has already occurred.

- **Counter Fraud App**

The Council is supporting a bid from an application developer to produce a Counter Fraud App for use by the public. The App will be capable of being branded and tailored for each Council. The App will enable the fraud awareness message to be communicated to the public; this will include details of key fraud threats and success stories. The public will also be able to report potential frauds using the App.

Immigration Enforcement presentation

The Counter Fraud Unit arranged for officers from the new Home Office Immigration, Compliance and Enforcement service to visit the Council in October and deliver a presentation to 35 staff representing a cross section of service areas who deal with immigration related issues.

The background to this was the recent closure of the UK Border Agency, with the enforcement activities becoming the responsibility of 'Immigration Enforcement', which is a part of the Home Office. The role of Immigration Enforcement is to target criminality and remove incentives for people to stay illegally. In the West Midlands Immigration Enforcement is increasing the number of arrest trained officers from 38 to 90. Immigration Enforcement is keen to work with local authorities to tackle illegal immigration. The presentation included an overview of Immigration Enforcement, immigration issues and identity checking.

The presentation provided contact details and opportunities for a working relationship to be established between Council officers and Immigration Enforcement Team, and those attending found it beneficial

Benefit Fraud outcome of Investigations 2014/15

The table below identifies the value and number of benefit fraud overpayments resulting from investigations to the end of September 2014. These are cases where the claimant has either provided inaccurate information in order to obtain benefits or has failed to inform the Council that their circumstances have changed resulting in them no longer being eligible to receive benefits. The Council uses intelligence to identify dishonest benefit claimants and to actively pursue the recovery of fraudulently claimed payments and where appropriate penalise the perpetrator. A total of 95 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

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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	£177,000	67
Prosecution Over Payment	£53,000	9
Penalty Over Payment	£15,000	16
Caution Over Payment	£300	3
Total	£245,300	95

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 to 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.

National Fraud Initiative: Audit Commission - Outcomes and Information for Elected Members and Decision Makers - 2012/13

In June 2014, the Audit Commission reported that £203 million of fraud, overpayment and error was identified across England alone. The Audit Commission has provided Wolverhampton City Council with a bespoke information pack that brings together key facts about the National Fraud Initiative (NFI) exercise. The information pack, which will be circulated during this meeting provides details of financial outcomes and comparisons to our nearest neighbours and will be presented to the meeting as a separate document. Things to note include:

- The data was captured on the 31 March 2014, which was at the end of the previous 2012/13 NFI exercise and draws in part on the Audit Commission's national report.
- Any outcomes recorded locally outside of the NFI web application will be excluded from the information pack.
- Where data matching shows little or no fraud and error, assurance can be obtained about the Councils control arrangements. It also reinforces the evidence used when compiling the Council's annual governance statement.

In addition, the pack also links to a series of questions to put to the Council's NFI Senior Responsible Officer. These responses help understand how the NFI is being used within the Council, the benefits of taking part and whether the benefits are being

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maximised. Responses to the questions have been prepared and can be found at Appendix 3 of this report.

National Fraud Initiative – 2012/14 exercise

The Counter Fraud Unit co-ordinates 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 outcomes from the 2012/14 NFI exercise are shown below.

Description	Previously Reported (£)	Current value (£)
Housing benefit claimants to student loans (2013)	57,689	87,340
Housing benefit claimants to student loans (2014)	4,487	10,125
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
Right to buy to housing benefit claimants	0	20,000
Duplicate invoice records (different creditors)	5,246	5,246
Single person discount (2010/11)	95,063	95,063
Rising 18's (2010/11)	12,879	12,879
Total	263,854	319,143

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

National Fraud Initiative – 2015/16 exercise

During October 2014 datasets from a number of Council Service Areas were uploaded to the Audit Commissions National Fraud Initiative (NFI) web site. The data will be matched and the results will be released late January 2015. Details of progress will be brought before the Committee as they become known.

Corporate Fraud Group

The Counter Fraud Unit chaired the fourth Corporate Fraud Group meeting which was held in September 2014. The Group brings together Council officers from a number of service areas who deal with potential frauds. It was identified that by developing a better understanding of the types of frauds facing the Council, officers will potentially be able to work together when conducting investigations. At the September meeting topics discussed included fraud related to insurance, data matching, local taxes and identity verification.

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.

Fraud Risk Register (Appendix 4)

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 2015
	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 – Autumn 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

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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"> • 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. 	Winter 2014
	<ul style="list-style-type: none"> • NFA / PKF Fraud Resilience Toolkit 	Autumn 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 Autumn 2014
	Develop measures of potential fraud risk to help justify investment in counter fraud initiatives.	Autumn 2014
	Seek opportunities to integrate the fraud risk register with other corporate risk registers and also the Audit Services Audit Plan	Autumn 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.	Immigration Enforcement Presentation October 2014
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 September 2014
	Look for opportunities to use analytical techniques such as data matching to identify frauds perpetrated across bodies, for example other councils.	Autumn 2014 onwards
	Undertake a programme of proactive target testing.	Autumn 2014 onwards
	Respond to external requests for information or requests to take part in national initiatives.	Autumn 2014 onwards

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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 September 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.	June 2014 onwards quarterly

Details of recent benefit fraud prosecutions

Case 1

A claimant started to receive Council Tax Benefit in 2000, as an owner occupier. At the time of making the claim no other income or bank accounts were declared. An anonymous allegation was received in January 2013 indicating that the claimant had an undeclared occupational pension. An investigation was conducted and details of the occupational pension were obtained.

The claimant fraudulently claimed £1,827 in Council Tax Benefit between April 2003 and April 2006. She was sentenced to an 8 month prison sentence, suspended for 2 years.

Case 2

A claimant started to receive Housing Benefit and Council Tax Benefit in 2006, as a Local Authority tenant. At the time of making the claim no other income or bank accounts were declared. An anonymous allegation was received in August 2013 indicating that the claimant was living with her ex-partner and was now married. It was further suggested that the partner was in full time employment.

An investigation found that the claimant had fraudulently claimed £2,870 in Housing Benefit and £581 in council Tax Benefit for the period October 2011 to June 2013.

The claimant admitted to getting married and dishonestly making a false statement to obtain benefits. The claimant pleaded guilty and was sentenced to 12 months community service and 160 hours of unpaid work.

National Fraud Initiative

A Checklist for Elected Members and Decision Makers in Councils in England

Questions for councillors to support 2014 individual National Fraud Initiative briefings

These questions are designed to be used in conjunction with individual National Fraud Initiative briefings for local authorities. Together, they will help Councillors do more to improve public confidence in their Council's efforts to tackle fraud in a range of areas.

	Question	Answers and Actions
1	<p>Reviewing the results in your slide pack</p> <ul style="list-style-type: none"> • What were our outcomes from the most recent NFI exercise? • How do we compare to other similar councils? • Are there areas where we appear to perform well/did not perform well? 	<p>The outcomes of the National Fraud Initiative for Wolverhampton City Council have been positive, and have been reported on an on-going basis to the Sub-Audit Committee through this, and previous Counter Fraud Update Reports. As can be seen from the Audit Commission's briefing, the Council performs well when compared to other similar councils. Areas we particularly performed well in, include Council Tax. Areas where we believe we could perform even better in the future include the number of matches processed.</p>
2	<p>Maximising the benefits of the NFI</p> <ul style="list-style-type: none"> • Are data matches followed up promptly? • Are funds being successfully recovered? • Do we prosecute where possible? • What assurances or conclusions do we draw from the NFI about the effectiveness of internal controls and the risks we face? • What changes, if any, have we made as a result of these conclusions? 	<p>Matches are processed by service areas with support from Audit Services. Where a fraud, error or overpayment is identified action is taken to recover monies and where possible fraudsters are prosecuted. Where possible lessons are learnt and changes are made to controls within systems. The outcome of the NFI exercises also provide a level of assurance about internal controls.</p>

	Question	Answers and Actions
3	<p>The NFI in our council</p> <ul style="list-style-type: none"> • What governance arrangements do we have in place to ensure we achieve the best possible outcomes from the NFI and who monitors them? • Is the NFI included in the remit of our audit committee or equivalent committee? • How do we keep other elected members or non-executive members informed about the NFI? • How is the NFI reflected in the governance training and development provided for officers and elected members? 	<p>The Counter Fraud Unit within Audit Services is responsible for co-ordinating the NFI exercise. The outcomes from the NFI exercises are reported quarterly to the Audit Sub-Committee. Other elected members or non-executive members can access the Committee minutes if they require more information.</p>
4	<p>Broadening your council's engagement with NFI</p> <ul style="list-style-type: none"> • Did we participate in the subsidised personal budget (direct payments) to deceased data pilot and housing benefits to student loans pilot matching that the NFI offered in October 2013? If not, why not? • Are there any potential pilot matches we want to suggest to the NFI team? • Have we considered how we could use the NFI flexible data matching service to prevent fraud or detect fraud sooner? 	<p>The Council participated in the housing benefit to student loan pilot matches. In addition, the Council has used the flexible matching service to match Payroll Deferred Pensioners to the Department of Works and Pensions deceased persons list. Matches that regularly result in positive outcomes could be run more frequently for example annually rather than every two years. We will explore options for using the NFI flexible matching service to prevent fraud.</p>
5	<p>The NFI fit with wider counter-fraud policies</p> <ul style="list-style-type: none"> • Do we have an elected member for 	<p>The Investigations Audit Sub-Committee is responsible for overseeing counter fraud activity and NFI exercises. Information from the NFI exercises is used to inform the Council's Counter Fraud Plan. The outcomes of the NFI exercises are publicised through these counter fraud updates,</p>

	Question	Answers and Actions
	<p>counter fraud activity and the NFI?</p> <ul style="list-style-type: none">• How does the NFI influence the focus of our counter fraud work?• Do we publicise the outcomes from the NFI externally?	<p>although we are always looking at exploring other avenues to promote the NFI outcomes.</p>

Fraud Risk Register @ October 2014

Appendix 4

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