

CITY OF  
WOLVERHAMPTON  
COUNCIL

# Audit and Risk Committee

17 September 2018

<b>Report Title</b>	Audit Services – Counter Fraud Update	
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<b>Accountable employee(s)</b>	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Not applicable	

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## Recommendation 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 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 July 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. (SR/31082018/F)

## **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. (RB/29082018/D)

## **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**

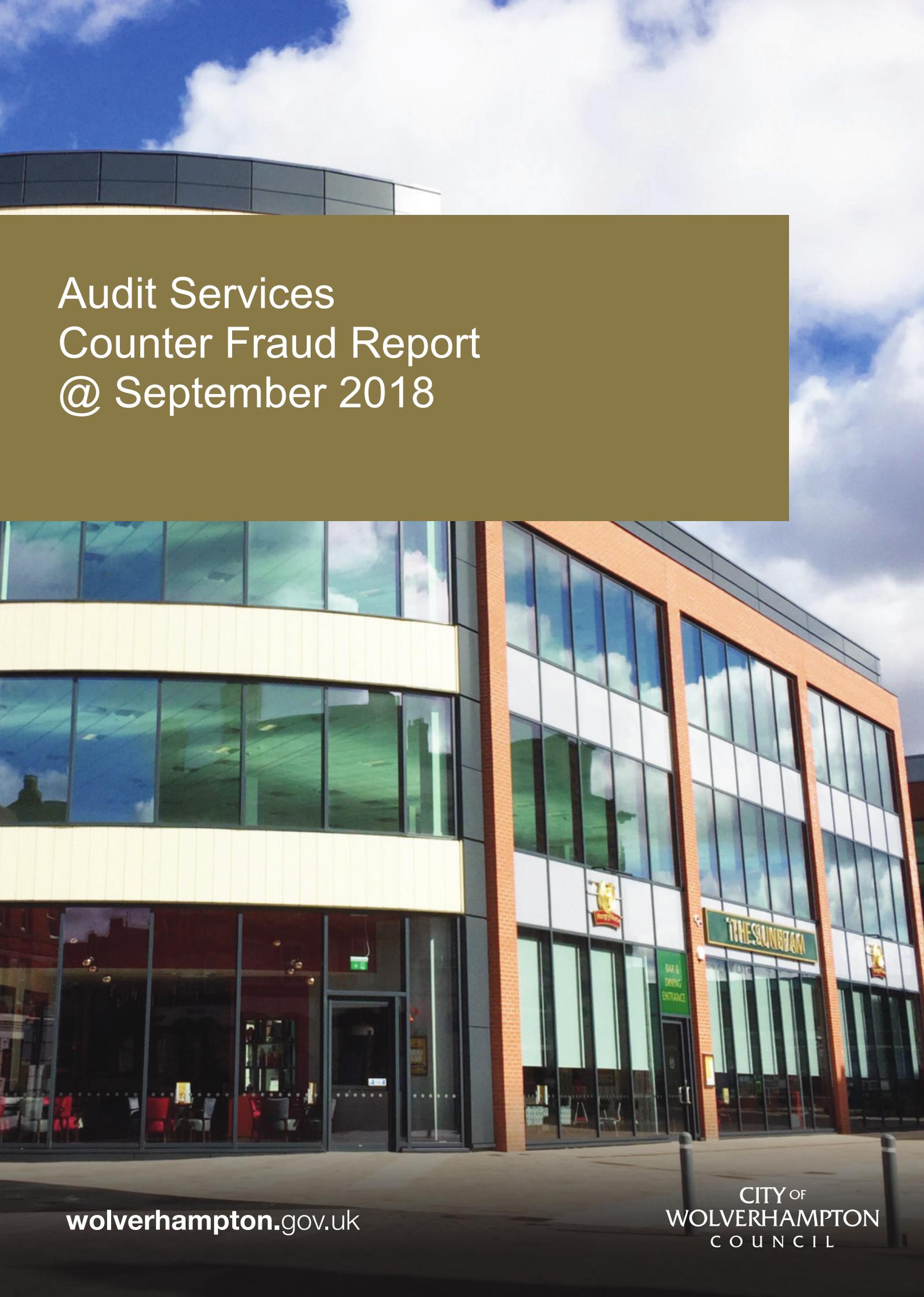
- 8.1 There are no human resources implications arising from this report.

## **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 @ September 2018

## 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.

## 3 *Counter Fraud Update*

### *Counter Fraud Plan*

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

### *Counter Fraud Unit Developments*

In November 2017, the Tenancy Fraud Team at Wolverhampton Homes TUPE transferred to the Council and have joined the Counter Fraud Unit. Following the transfer, the team has continued to provide a tenancy fraud investigation service to Wolverhampton Homes under a service level agreement.

The team has also begun to expand their investigatory expertise to investigate new areas of fraud which impacts on the Council. This enhances the Council's ability to tackle fraud.

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

The National Anti-Fraud Network (NAFN) issues regular alerts which provide information on fraud attempts, trends and emerging threats. The information provided in the alerts has been notified to NAFN by other local authorities from across the country. These alerts are checked to the Council's systems to verify whether there have been any instances at Wolverhampton. This financial year there have been four 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 in each case, it was confirmed that there was no impact at Wolverhampton. The most common alerts related to Bank Mandate fraud and cyber fraud including ransomware.

As indicated above NAFN has taken a key role in highlighting bank mandate fraud through the regular dissemination of their alerts and maintaining a central repository of reported attempts. More recently they have been working in partnership with Police Scotland and Action Fraud UK to educate the public on mandate fraud and what measures can be taken to prevent becoming a victim. Together they have created a Bank Mandate Fraud Guidance booklet (also available on the NAFN website) to be distributed across the UK and a copy can be found at Appendix 3 of this report.

### *Tenancy Fraud Team Performance*

The Tenancy Fraud Team results for 2017-2018 are shown in the table:

Type of fraud and/or error	2016/2017		2017/2018	
	Cases	*Value £	Cases	*Value £
<b>Tenancy sub-letting</b> – Illegal subletting of properties which were recovered	14	1,302,000	11	1,023,000
<b>Fraudulent housing applications</b> – prevented	8	288,000	8	288,000
<b>Right to buy</b> – preventing fraudulent RTB applications	3	195,000	1	65,000
<b>Other tenancy fraud</b> – succession, abandonment or non-occupation – legal action required where fraudster fails to hand keys back	9	837,000	7	651,000
<b>Totals</b>	<b>34</b>	<b>2,622,000</b>	<b>27</b>	<b>2,027,000</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 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.

### *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 current exercise commenced in January 2017 and is now concluding. A total of 13,613 matches were released of which the Cabinet Office has identified 4,583 as recommended matches. The Cabinet Office expects all the recommended matches to be investigated as a minimum. 4,223 matches have been processed, 82 are being investigated. Five frauds have been investigated and 454 errors identified.

Details of the progress made will be brought before the Committee as it becomes known. Examples of the results up to July 2018 are shown below:

Description	Previous value (£)
Housing benefit claimants to student loans	19,781
Housing benefits claimants to pensions	11
Housing benefits claimants to DWP Deceased	73
Council Tax Reduction Scheme to DWP Deceased	3,537
Duplicate records by amount and creditor reference	100,148
Duplicate records by invoice number and amount but different creditor reference and name	1,800
<b>Total</b>	<b>125,350</b>

#### *National Fraud Initiative Business Rates Pilot*

The Council has volunteered to take part in an NFI pilot exercise where Business Rates information from West Midlands Council's is being matched. The results will be investigated and the outcomes reported to future meetings of this committee.

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

The next NFI data matching exercise will commence during October 2018 with the submission of data sets from across the Council. The Council's data will be matched 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 for investigation at the end of January 2019.

#### *Cabinet Office – Recent National Fraud Initiative Consultation Exercise*

The Cabinet Office recently undertook a consultation exercise on their proposed NFI work programme and scale of fees. There were 21 responses, including Wolverhampton, from 356 councils. The Cabinet Office issued a formal response to the consultation on 9 July 2018, but they also took the opportunity to respond to us at a local level on the issues that we raised.

They were pleased to hear that we continued to find value in the NFI exercise and that we utilise the exercise as part of our local counter fraud strategy. We raised the challenge of the timeliness of the data matches and that going forwards a more real-time exercise would be beneficial. We also raised that we would welcome input from more third party bodies, such as credit reference agencies as it would further enhance the quality of the matches.

In response, they said that in the NFI 2016/17 exercise they worked to introduce Credit Reference data into the NFI exercise as an additional benefit. This is currently available on an individual match basis for all data excluding creditors (enabling a credit reference check to be undertaken on selected matches), or as part of the enhanced council tax single person discount exercise.

Continuing this work, one theme of their NFI strategy was around increasing both the volume and frequency of data that is used in, or accessed through, the NFI. This includes identifying and securing access to additional data (participants and 3<sup>rd</sup> party) that can improve the effectiveness of the NFI exercise, and working with participants and stakeholders to evaluate the options for, and benefits of, more regular, possibly automated, data feeds into the NFI. Having recently secured a new contract with their IT suppliers, they had already begun work on developing these key work streams, with the aim to be able to start implementing some improvements into the NFI 2018/19 exercise. They will also be working with participants to promote use of the NFI solutions on an ongoing rather than on a cyclical basis.

We also raised that there may be a risk going forwards of the NFI becoming less relevant as organisations begin to work together and find their own solutions to tackle fraud. They recognised that many organisations were undertaking more proactive work on fraud detection and prevention, and they support this movement. Their aim is that as this work evolves, they too can evolve their products and services to help aid local initiatives where possible - for example they are committed to working with local authorities to develop and utilise the NFI FraudHub to facilitate more regular local/regional data matching aligned with customer needs. Similarly, their AppCheck and ReCheck products are designed to allow participants to engage more flexibly, and to meet their needs, with the NFI. A key part of this is ensuring they engage with users regularly to help understand what is needed and where improvements can be made.

They have a new user engagement strategy in place which they hope will provide regular and relevant opportunities for their users to input and help drive their key developments. They were therefore pleased that we were willing to engage with them going forwards and they will actively seek our input where opportunities present themselves.

#### *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.

#### *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.

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 Autumn 2018
	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.	Autumn 2018
	Hold fraud surgeries to enable staff to report areas of suspected fraud.	Fraud surgeries planned for Autumn 2018
	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).	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. Latest exercise commenced January 2017
	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 June 2018 next meeting Autumn 2018
	Attend external fraud seminars and courses.	Midland Fraud Forum Conference – February 2018  CIPFA Counter Fraud Summit - November 2017

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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>• The European Institute for Combatting Corruption And Fraud TEICCAF's- Protecting the English Public Purse</li> </ul>	Annually
	<ul style="list-style-type: none"> <li>• Department for Communities and Local Government – ten actions to tackle fraud against the Council.</li> </ul>	On-going
	<ul style="list-style-type: none"> <li>• Consideration of fraud resilience toolkit</li> </ul>	On-going
Identify and rank the fraud risks facing the Council	Manage the Council's fraud risk register to ensure key risks are identified and prioritised.	On-going
	Develop measures of potential fraud risk to help justify investment in counter fraud initiatives.	On-going
	Seek opportunities to integrate the fraud risk register with other corporate risk registers and also the Audit Services Audit Plan	On-going
Work with other fraud investigation teams at the Council	Develop good communication links between the Counter Fraud Unit, Wolverhampton Homes, and Audit Services.	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; The TEICCAF Annual Protecting the English Public Purse report, 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	Work with Service Areas to develop methods of recognising, measuring and recording all forms of fraud.	Corporate Fraud Group established

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Issue	Action	Timescale
professional standards.	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 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 Autumn 2018
	Promote and hold fraud surgeries that provide the opportunity for staff to discuss any potential fraudulent activity at the Council.	Fraud surgeries planned for Autumn 2018
	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 @ July 2018*

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 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