



CORPORATE COUNTER FRAUD PLAN 2013/14

Produced by the Head of Internal Audit and subject to annual review

- CORPORATE MANAGEMENT TEAM: JUNE 2013
- AUDIT COMMITTEE: JUNE 2013

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OBJECTIVE

To keep fraud corruption, bribery, theft and misappropriation under control whilst working to reduce it to an absolute minimum and putting arrangements in place to maintain it at that level so the maximum resources are available to provide services to the local community.

APPROACH

The Counter Fraud Team will be the main service involved in delivering the Corporate Counter Fraud Plan. The way in which the Counter Fraud Team will help the Council minimise financial loss from fraud, corruption, bribery, theft and misappropriation is by:

- working with services to set the right culture
- focusing on deterrence and prevention
- having robust arrangements in place to detect potential activity
- where necessary, investigating cases thoroughly and taking robust action to apply sanctions and obtain redress.

In delivering this, the Counter Fraud Team will continue to look for opportunities to develop beneficial collaborative working arrangements with other organisations.

The approach adopted by the Counter Fraud Team to doing this:

- complies with the requirements of Fighting Fraud Locally, The Local Government Fraud Strategy
- will deliver the Anti Fraud & Corruption Strategy, the Anti Money Laundering Strategy and ensure staff are aware of the Whistleblowing Policy.

It also takes account of the good practice guidance set out in:

- ALARM, The Public Risk Management Association Publication: Managing the Risk of Fraud
- CIPFA Publication: Managing the Risk of Fraud
- Audit Commission Publication: Protecting the Public Purse: Local Government Fighting Fraud.

The vision outlined in the Fighting Fraud Locally is that by 2015, local government will be better able to protect itself from fraud and have in place a more effective fraud response.

The approach outlined in this plan is seen as the route to achieving this vision, embed a more collaborative approach to tackle the fraud risks and become more resilient to these threats.

IMPACT

The successful delivery of this plan informs:

- the Council's Annual Governance Statement

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- the Head of Internal Audit annual opinion the effectiveness of the Council's risk management, control and governance processes
- the Section 151 Officer when certifying the annual financial statements.

RISK ASSESSMENT

The National Fraud Authority (NFA) estimates that fraud in local government amounts to £2.2bn representing 11% of total public sector fraud. Fraud within local government is diverse and, based on research and intelligence, likely to be committed against all types of expenditure including payroll, goods and services, as well as against the taxes and benefits or services administered at a local level.

The National Fraud Authority estimates the £2.2bn to be made up of:

Housing Tenancy Fraud	£900m
Procurement Fraud	£890m
Payroll and Recruitment Fraud	£153m
Council Tax Fraud	£131m
Blue Badge Scheme Abuse	£46m
Grant Fraud	£41m
Pension Fraud	£5.9m

In addition, the Audit Commission's report 'Protecting the Public Purse' identified abuse of position, payroll / pensions / expenses, false insurance claims and social care direct payments within the six largest fraud types being committed in local government.

Therefore the following nine areas have been identified as potential areas of risk for the Council:

- Grants
- Insurance
- Employees (Including Payroll / Recruitment, Declaration of Interest / Gifts and Hospitality)
- Schools
- Blue Badges
- Council Tax / Housing Benefit
- Direct Payments (Social Care / Personal budgets)
- Housing Tenancy
- Procurement (including tenders and, in due course, contracts).

In practice there is no 'one size fits all' approach to tackling fraud. Therefore adopting the approach outlined above will:

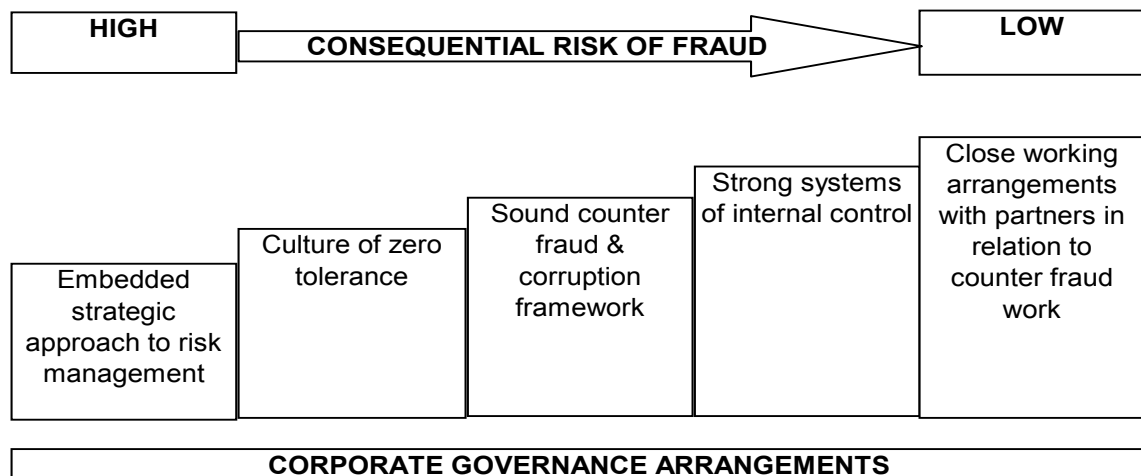
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- enable the Council to target its resources more efficiently and manage the risk more effectively
- allow the Counter Fraud Team to develop their proactive skills, providing a solid foundation which can then be used to tackle more complex fraud risks such as procurement.

WORK PLAN

The Corporate Counter Fraud Plan is attached at Annex 1 and is designed to:

- help the Council to maintain the five key essentials of corporate governance that need to be in place in order to manage the risk of fraud, corruption, bribery, theft and misappropriation at an acceptable level



Source: ALARM Managing the Risk of Fraud

- ensure that a full range of actions is being taken covering:
 - culture
 - deterrence and prevention
 - detection and investigation
 - sanctions and redress.

Source: CIPFA Managing the Risk of Fraud, Red Book

The overall work programme consists of a number of individual work streams to be completed in a staged and prioritised manner. Each work stream will contain actions that will address culture as well as deterrence, prevention and detection.

Each work programme has been drafted based on the risk areas identified above and will include the tasks to be undertaken, the resource required together with delivery dates. The work programmes will also take into account the work required to participate in the Audit Commission's National Fraud Initiative and the pilot data matching exercise in relation to Direct Payments.

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RESOURCING

The service plan will predominantly be delivered by the Counter Fraud Team although it will involve input from the Internal Audit and Insurance Teams as well as some bought in specialist resource.

PERFORMANCE INDICATORS

A new suite of indicators have been developed to monitor the performance of the Counter Fraud Team, refer Annex 2. These cover all aspects of team performance i.e. cost, staff productivity, operating arrangements, investigation outcomes and impact.

Going forward, the two key performance criteria that the team will need to develop indicators around are:

- improving the Council's control environment by ensuring system / process weaknesses identified during investigations are rectified properly
- recovering monies from investigations and identifying potential financial savings.

Some operational performance indicators have also been implemented to more effectively monitor individual performance.

Performance against targets set will be reported to the Corporate Management Team and Audit Committee periodically.

UNDERSTANDING FRAUD RISKS

Fraud risk changes over time and collaboration with other organisations can help identify and avoid new fraud risks. Many frauds follow patterns established in one area that are then exported into new ones. With the right training and information sharing network these can easily be avoided.

Understanding the key fraud risks in each of the areas highlighted, will assist in the prevention and detection of fraud, which in turn will help reduce the financial pressure on the Council and, help protect frontline services.

The remainder of the plan outlines some of the key fraud risks in local government as outlined in various national reports produced by the Audit Commission and the National Fraud Authority.

GRANTS

The risk within grant spending depends on various factors such as the type of grant recipient, the purpose of the grant, the nature of the scheme and the scale of the award. For each type of grant, there is the risk of fraud both from external applicants and from staff. The Council offers a variety of grants relating to housing, school uniforms and disabilities. The nature of fraud associated with grant applications can be placed into three categories:

- misrepresentation by grant applicants
- not using the funds for the purpose for which they applied
- insider enabled fraud in respect of staff who create or assist in the creation of fictitious grant payments.

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If successful these will result in a financial loss to the Council. In addition there is a reputational risk of adverse publicity where genuine applicants miss out on funding.

INSURANCE

There are three main areas in which insurance fraud can be categorised as:

- fictitious losses, incidents or injuries which occur when the third party deliberately presents a false set of circumstances and / or evidence for their financial gain
- staged incidents which occur when a claim is received in respect of damage, loss or injury that has been caused deliberately
- material misrepresentation or exaggeration of loss or personal injury which occur when genuine losses or incidents arise and the third party deliberately exaggerates the true extent of damage sustained or material loss or personal injury.

EMPLOYEE

Traditionally attention has been centred on external fraud threats however the threats can also come from within. Whilst the majority of employees are honest and trustworthy there is a minority that are dishonest with the intention to defraud their employer. Employee fraud can be opportunistic in that it can be a completely unplanned attack purely for personal financial gain. However, employee fraud can also be linked to organised criminal networks.

Employee fraud can include:

- those relating to the payroll e.g. ghost employees, the submission of inflated or false timesheets, overtime, mileage or expenses claims and selling data to third parties
- the risk of failing to declare conflicts of interest and or gifts and hospitality.

The opportunity for recruitment fraud in the current financial climate is greater with more candidates applying for fewer jobs. The types of fraud in this area include concealing or falsifying employment history, misrepresenting qualifications and / or concealing unspent criminal convictions.

SCHOOLS

Public Concern at Work (the national charity that supports whistleblowers) reports that 14% of its whistleblowing cases come from the education sector. Schools can fall victim to both internal and external fraud threats, for example those relating to;

- recruitment and payroll
- procurement and contracts
- changing of supplier bank accounts details, accounts receivable and payable
- false trading accounts
- finance leases.

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The education landscape is changing with the emergence of Academies as well as Foundation and Free schools and with change, the risk of fraud increases.

BLUE BADGE

In 2011, an exercise carried out by Blue Badge Fraud Investigation Limited showed that 20 per cent of blue badges were being misused resulting in estimated losses at £46 million. The misuse of blue badges can be categorised into two groups:

- abuse of badges which includes using a counterfeit badge, a lost or stolen badge or the badge of a deceased person
- misuse of genuine badges which includes using the badge when the holder is not present.

COUNCIL TAX

The National Fraud Authority estimated the extent of council tax fraud at £131 million with the key fraud risk being the avoidance of the liability to pay either in full or part. Traditionally the areas of fraud risk are centred on:

- single person's discount
- false claims for exemptions for individuals who are severely mentally impaired
- vacant properties.

However other fraud risks include:

- employees manipulating Council Tax records to divert funds for their own or another person's gain
- money laundering where cash payments of Council Tax are made
- third parties, who are neither the employee of a local authority or a Council Tax payee, who:
 - attempt to collect council tax fraudulently
 - make spurious claims for Council Tax refunds using account details of the genuinely liable party.

DIRECT PAYMENTS

The sums involved in direct payments can be significant. The main risks associated with direct payments are:

- false or exaggerated claims of care requirements which would include a person falsely claiming that they require care, using false identities or exaggerating the amount of the care that they require
- fraud perpetrated directly against the service user by someone managing their funds which would include misappropriation of funds made by way of direct payment to the service user, perhaps by a family member or other trusted person

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- fraud perpetrated by the provider of the care commissioned directly by the service user which might include under provision of services (e.g. not providing the hours of care contracted for), over-charging for services provided and duplicate invoicing to multiple invoices to local authorities.

HOUSING TENANCY

Housing tenancy fraud is the unlawful occupation of social housing, usually to make a profit which can be very lucrative to fraudsters.

The National Fraud Authority estimated up to 50,000 homes may be unlawfully sublet costing the public purse £900 million per annum to house homeless families in temporary accommodation. However the types of fraud in this area are wide ranging and include false homeless applications, unauthorised successions, key selling, abandonment, non-occupancy and Right to Buy.

Dealing with tenancy fraud is important as there are still many families in the local community in need of social housing. There are wider implications to communities when families don't have a stable living environment as:

- they can struggle to create a stable educational environment for their children
- it can:
 - impact on the health and well being of family members, as well as
 - create a lack of social cohesion.

As outlined by an article by ALARM (the public risk management association) called Battling Tenancy Fraud.

To date, there has been a financial incentive for local authorities to deal with tenancy fraud as a way of reducing the temporary accommodation costs. Civil recovery might be appropriate where illegal sub-letting has been carried out on a commercial basis or where the investigation has revealed assets (e.g. another property) against which judgment can be enforced. This can include:

- rent arrears (usually claimed in possession actions),
- the illegal profit (plus interest) made by the original tenant after paying the proper rent due to social landlord,
- damages for dilapidations,
- fraudulently claimed benefits,
- legal costs, and possibly
- the cost of keeping homeless family in temporary accommodation.

PROCUREMENT / CONTRACTING

The National Fraud Authority estimated the extent of procurement fraud suffered by the public sector at £2.3 billion. A further report "Procurement Fraud in the Public Sector" published by the National Fraud Authority in October 2011," concluded that fraud was likely to amount to (at least) 1% of total procurement spend.

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Procurement fraud can be perpetrated by those inside and outside an organisation. The nature of procurement fraud differs between the two core stages of the procurement lifecycle; pre-contract award and post-contract award.

Fraud in the pre-contract award phase is complex, often enabled by a lack of compliance with policy and effective due diligence but also involving activity such as collusion and corruption.

Fraud in the post-contract tends to involve overpayments to contractors, through false or duplicate invoicing, payments for substandard work or work not being completed under contract terms. Sharp practice and unlawful activity can also be present in the margins of post-contract award fraud. Examples include overpricing for goods or services.

The change in the way in which local government manages its services and finances will create additional fraud risks. The move from delivering services to commissioning services from neighbourhood and community groups increases the risk of bribery, financial mismanagement and abuse of funds.