

Name of Committee:	Audit Committee
Date of Meeting:	01/07/2019
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Corporate Fraud Review 2018-19
Purpose of Report:	To inform Audit Committee of the actions undertaken in relation to Fraud and Irregularity
Report Owner:	Head of the Regional Internal Audit Service
Responsible Officer:	Head of Finance & Section 151 Officer
Elected Member and Officer Consultation:	No Elected Members have been consulted. Legal Services and Head of Finance
Policy Framework:	The proposals in this report are in accordance with the policy framework and budget
<p>Executive Summary:</p> <p>This report summarises how the Council manages the risk of fraud with the aim of prevention, detection and subsequent investigation & reporting of fraud.</p> <p>The Fraud Strategy and Framework 2018/19 - 2020/21 was reported to Audit Committee in November 2018 and it continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption, whether it be attempted externally or from within. The framework included reactive and proactive work, the proactive work being presented in an action plan. The action plan has been updated and the current position is shown at Appendix A.</p> <p>The Council also participates in the National Fraud Initiative (NFI). This is a biennial exercise coordinated in Wales by the Wales Audit Office. Data is extracted from the Council's systems and reports containing potential matches were released in January 2019. It is important to note that where a match is found, it is not in itself evidence of a fraud, it may be an error or an inconsistency that requires further investigation. The latest position with these matches is at Appendix B.</p> <p>Reactive fraud work is also undertaken. This can be as a result of a concern raised via a Whistleblowing referral or complaint or by an Officer who has identified irregularities or has concerns. A summary of the fraud work undertaken during 2018/19 is at Appendix C which also states the recommendations that have been made to improve the controls moving forward.</p>	

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1. Recommendation

- 1.1** Members are asked to note this report, the measures in place and the work being undertaken to prevent and detect fraud and error.

2. Reasons for Recommendations

- 2.1** To ensure effective monitoring of fraud and irregularity is undertaken.

3. Background

- 3.1** The challenge presented to Councils by fraud is significant. The Local Government Counter Fraud and Corruption Strategy 2016-19 (usually known as Fighting Fraud and Corruption Locally), estimates that fraud costs councils around £2.1 billion each year and some reports produced by other organisations suggest that this figure could actually be higher.
- 3.2** The impact of fraud should never be underestimated. Fraud leaves the Council with less to spend on services for residents and costs taxpayer's money. Fraud against a Council is not a victimless crime. There's not only the lost/stolen money to consider but also the loss of working time investigating and correcting issues, liaising with police and lawyers, any subsequent court costs, increased insurance premiums, reputational damage for individuals or the Council as a whole and poor staff morale.
- 3.3** The Council sets high standards for both Members and Officers in the operation and administration of the Council's affairs and has always dealt with any allegations or suspicions of fraud, bribery and corruption promptly. It has in place policies, procedures and reporting mechanisms to prevent, detect and report on fraud, bribery and corruption. These include the Fraud Strategy and Framework, a Whistleblowing Policy, ICT Code of Conduct and the Anti-Fraud and Bribery Policy.
- 3.4** The Fraud Strategy and Framework 2018/19 to 2020/21 was reviewed and reported to Audit Committee in November 2018 and it continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption, whether it be attempted externally or from within. There has been no new guidance since this date and therefore no changes are proposed to the existing strategy.

4. Key Issues for Consideration

4.1 Action Plan - Proactive Work

The Fraud Strategy and Framework includes reactive and proactive work and the proactive work was presented in an action plan which sets out the developments the Council proposes over the medium term future to further improve its resilience to fraud and corruption. The Action Plan is attached at Appendix A and has been updated to illustrate the progress being made.

4.2 It can be seen that a Fraud Risk Register template has been produced and a Fraud page on the Council's intranet is being developed which will be a point of reference for staff and will contain regular newsletters and updates. A few fraud awareness training sessions have been delivered to date and will be rolled out in due course. A schools anti-fraud toolkit has been produced together with a supporting self-assessment health check and these are due to be rolled out to all Vale schools shortly.

4.3 National Fraud Initiative - 2016 & 2018 Exercises

One activity included on the Action Plan is the National Fraud Initiative (NFI). This is a biennial exercise coordinated in Wales by the Wales Audit Office whereby data is extracted from the Council's systems and reports. These are matched against data submitted from other bodies such as other Local Authorities, DWP, NHS & Trusts, Police and Housing Associations etc. It is important to note that where a match is found, it is not in itself evidence of a fraud, it may be an error or an inconsistency that requires further investigation.

4.4 The results of the 2016 data matching exercise, which has now been concluded prior to the new exercise commencing, identified £173,598.95 in recoveries and are displayed in *Appendix B*. The majority of the figure (£125,384) has been generated by the Council Tax to Electoral Register match with 168 potential frauds and 4 errors identified. This match identified discrepancies between the electoral register and council tax records, often highlighting where single person discount has been incorrectly claimed and paid.

4.5 The most recent data matching exercise was undertaken in September 2018 and the matches were released in January 2019. A total of 3,984 matches have been provided which range from high, medium to low risk. Work is on-going however to date £13,099 in Housing Benefit recovery has been identified.

4.6 NFI also provides access to AppCheck which has been designed as a fraud prevention tool, enabling public bodies to undertake real time checks for potential fraud within applications for benefits and services. AppCheck helps prevent fraud entering the system, thereby avoiding costly investigations and recovery action which is needed once fraudulent claims are in payment. This tool has recently been used by Housing Officers following training by the Corporate Investigation Officer and it is intended to roll out this tool to other service areas of the Council.

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4.7 Internal Fraud & Corruption Work

During the financial year 2018/19, 14 reviews of this nature were undertaken and these are listed in Appendix C. This work was generated in a number of ways, by whistleblowing or complaint referrals whereby a fact finding exercise was undertaken to verify the information provided and determine if there are issues; by Managers who may have concerns over a certain issue or individual or as a result of an audit review. Some of these reviews resulted in an assurance opinion being provided whereas others were of a fact finding nature and findings are passed onto a Determining Officer acting under the Council's disciplinary or grievance policy. In addition, for every audit investigation where weaknesses have been identified in internal controls, the report highlights areas to be improved to reduce the risk of future inappropriate activity. As a result of this work in 2018/19, 17 significant recommendations have been made to improve the existing systems to help prevent further fraud or error.

4.8 One case of note is a Council Tax fraud, identified during 2018/19 but related to the 2017/18 financial year resulting in a former employee receiving a custodial sentence. The perpetrator had been employed by the Council since June 2016; firstly as a temporary Clerical Assistant and then promoted to Revenues Assistant. Between November 2017 and March 2018, the perpetrator targeted nineteen accounts, raising council tax exemptions so it appeared as if residents were owed money. Of these nineteen cases, five showed the refunds paid directly into the perpetrator's own bank account and the remaining twelve identified a forwarding address / care of address using either the perpetrator's own address or her family member's address.

4.9 After a thorough internal investigation, all supporting details were passed to the Police to conduct a criminal investigation. This resulted in the perpetrator appearing in Cardiff Crown Court, where a guilty plea to the theft of £48,391.38 was made and an eighteen-month custodial sentence was handed down. The Recording QC described the perpetrator's actions as "sophisticated, planned and a gross breach of trust". It was stated in Court that the perpetrator had no assets due to a gambling addiction. Therefore, the Council submitted a claim against this loss via insurance, whereby a recovery of £23,391.38 was achieved.

4.10 Following this case an internal audit review of the systems and controls within the Council Tax system has been completed and changes have been made to reduce the likelihood anything of this nature occurring again.

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5. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 5.1** These measures aim to prevent or reduce the risk of fraud occurring. The programme of fraud awareness training and participation in the national data matching exercise demonstrates collaboration with others with the aim of making improvements over the longer term.

6. Resources and Legal Considerations

Financial

- 6.1** To ensure that the Council funds and resources are used appropriately.

Employment

- 6.2** There is a resource impact in relation to the investigation and resolution of potential fraud matters. The impact is borne by Directorates and Internal Audit.

Legal (Including Equalities)

- 6.3** Public Service organisations have a responsibility to embed effective standards for countering fraud, corruption and bribery into the organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management. The Council's Anti-Fraud and Bribery Policy incorporates reference to the Bribery Act 2010 which provides a more effective legal framework to combat bribery.
- 6.4** The CIPFA Code of Practice on Managing the Risk of Fraud & Corruption published in October 2014, sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response.

7. Background Papers

None

Fraud Strategy and Framework Action Plan

Activity	Scope	Responsible	Progress	Due
Fraud Risk Registers	To develop Fraud Risk Register(s) and align to complement the existing risk management approach.	Investigation Officer	Template of a Fraud/Incident Register produced, along with supporting Standard Operating Procedures (SOP's).	April 2019
	Maintain the fraud risk register and regularly monitoring trends to identify areas of high risk			Ongoing to 2020/21
National Fraud Initiative (NFI)	To facilitate the timely delivery of NFI 2018 /19 data matches.	Investigation Officer	All data been extracted, and the matches been returned	Completed
	Undertake integrity checks on a sample of cleared matches to ensure robustness / quality of review and select of sample of high-risk matches across the spectrum to investigate.		This activity is currently in progress with random checks already raised in certain areas.	October 2019
	Regularly monitor progress against recommended matches throughout the duration of the exercise.		On-going exercise	October 2019
Develop devoted fraud internet / intranet pages	To enable a clear and concise point of reference for necessary information on fraud and irregularity maximising the potential of digital to enhance the user experience.	Investigation Officer	Completed Web design training, clearance received to establish site	August 2019
	Maintain the fraud internet / intranet pages to ensure they are kept up to date.			Ongoing to 2020/21
Training & Awareness	Develop an effective fraud awareness-training programme for Members and Officers.	Investigation Officer	Module and a suite of questions have been developed, awaiting sign-off to launch. Training and PowerPoint Presentations awaiting approval prior to rollout.	August 2019
	Provide ongoing training as required for the duration of the action plan		Training is being implemented during 2019 in relation to NFI/AppCheck	Ongoing to 2020/21
Data Analytics	To maximise the use of data analytics and data matching to match electronic data to detect and	Investigation Officer /	Incomplete, only currently analysing the OHMS and Academy systems at present.	March 2020

Appendix A

Activity	Scope	Responsible	Progress	Due
	prevent fraud.	Auditors		
Develop alerts and newsletters to raise awareness and notify readers of new and potential fraud risks.	Develop alerts and newsletter across the Council.	Investigation Officer	Mock newsletter produced and sign-off granted, awaiting development of web site.	August 2019
	Produce Newsletters at regular intervals throughout the duration of the action plan.			Ongoing to 2020/21
No Recourse to Public Funds	With a national increase in applications, there has been a consequent increase in attempts by fraudsters to obtain public funds via false applications. In addition, a developing trend for individuals to make multiple applications across different authorities. This can be linked to the NFI 2018 data matching exercise.	Investigation Officer	An implementation programme of the Appcheck Suite via the NFI Site is in progress. A phased rollout is in progress for 2019.	On-going
Annual Report on Fraud & Irregularity	To produce an end of year report to those charged with governance covering all reactive and proactive fraud initiatives.	Head of Audit & Investigation Officer	Report produced	Annually
Schools	Conduct a "Fraud Health Check" across school establishments to attain assurance over the controls and governance in place to mitigate the potential for fraud.	Investigating Officer	A schools anti-fraud toolkit has been produced and signed-off. There is a supporting self-assessment health check to support this document, currently awaiting a rollout programme.	March 21

NFI Results 2016 – Identified Savings

Area of Investigation	Outcome of Investigations	Saving Identified
Housing Benefit Claimants	529 matches were produced and all matches were investigated. 4 claimants were identified as receiving Housing Benefit when not entitled. This resulted in overpayments of £2125, of which £2042 was recoverable. Payments under £100 are not recovered as per the agreed policy. These overpayments also resulted in a combined weekly benefits reduction total of £91.01	£2,042.00
Private Residential Care Homes	31 matches were produced, of which 28 were investigated. 2 cases were identified whereby payments were being made for a deceased person, this resulted in a recovery of £19,099.	£19,099.00
Council Tax Reduction Scheme	940 matches were produced, 619 were investigated. 3 cases were identified where overpayments were identified, and resulted in a recovery of £5246.74. These also resulted in a combined weekly benefits reduction total of £129.24.	£5,246.74
Duplicate Records	1527 matches were produced, of which 1433 were associated with duplicate records by invoice amount and creditor. In total, 288 matches were investigated, which included all the high matches in this sector. 10 cases were identified where payments had been made to two separate contractors for the same service. Recovery was achieved in each case identified, totalling £9835.21.	£9,835.21
Council Tax to Electoral Register	2034 matches were produced, of which 1026 were investigated. These investigations identified 168 potential frauds and 4 errors, with a value of £126,123, of which £125,384 is recoverable. The overpayments identified also resulted in an accumulated £1368.07 per week, benefit payment reduction.	£125,384.00
Council Tax to Rising 18's	157 matches were produced, of which 69 were investigated. These investigations identified 36 potential frauds and 17 errors, with a deficit value of £12,078.32, of which £11,992 is recoverable. The overpayments identified, also resulted in an accumulated £267.84 per week, benefit payment reduction.	£11,992.00
	Total Savings:	£173,598.95

Counter Fraud & Corruption Work 2018/19

Counter Fraud & Corruption Work 2018/19	Assurance Opinion & Action	Recommendations Raised	
		Fundamental High	Significant Medium
Council Tax Fraud	No Assurance – Custodial Sentence	n/a	n/a
Overtime Claim	Limited Assurance – Claim adjusted	n/a	n/a
Email Usage	Complete - Referred to Determining Officer	n/a	n/a
Email Usage	Complete – Referred to Determining Officer	n/a	n/a
Petrol Usage	Limited Assurance - Complete – Referred to Determining Officer	n/a	1
Safeguarding 1	Complete - Referred to the Determining Officer	n/a	n/a
Safeguarding 2	Complete – Referred to the Determining Officer	n/a	n/a
Civic Ceremony / Twinning	Limited Assurance – Referred to Determining Officer	n/a	n/a
Use of PCards Tourism	Reasonable Assurance - Complete	n/a	1
Asbestos Framework / Procurement	Complete – N/A	n/a	1
Missing Money at a School	Limited Assurance – Report issued to Headteacher	n/a	7
Whistle Blowing – Cosmeston Village	Complete – N/A	n/a	3
Whistle Blowing - Use of Sub-Contractors	Limited Assurance –Report issued.	n/a	4
Whistle Blowing - Alps	Carried Forward into 2019/20	n/a	n/a
Total Reviews (14)			17