

Audit & Governance Committee

Counter-Fraud Report 2017/18

Introduction

CIPFA defines fraud as "the intentional distortion of financial statements or other records by persons internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain."

Similarly, in *The Investigation of Fraud in the Public Sector* (CIPFA, 1994) CIPFA defined corruption as "the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person." Furthermore, the Fraud Act 2006 has defined fraud in law for the first time, defining it in three classes:

- fraud by false representation;
- fraud by failing to disclose information; and
- fraud by abuse of position.

Fraud may be committed both from within the organisation and from outside it. Frauds may be complex or simple, opportunistic, pre-planned or continuous.

In June 2013, the National Fraud Authority estimated that fraud was costing the UK £52 billion a year. It estimated that the loss in the public sector was £20.6 billion, with £2.1 billion of this specific to local government (see Appendix 1). In the public sector, every pound lost through fraud directly affects citizens by increasing national and local taxation, or threatening the provision of local services. (At the present time, CIPFA advise that this remains the most reliable and comprehensive set of figures available).

The current financial climate has increased the likelihood of fraud being perpetrated against the Council. The Audit & Governance Committee has oversight responsibility for the anti-fraud culture within the Council and receipt of annual Counter-Fraud Report is included in the Committee's agreed workplan.

Fighting Fraud & Corruption Locally

In 2016, CIPFA published "Fighting Fraud & Corruption Locally – the local government counter fraud and corruption strategy" (FFCL 2016). In the main, this document does not identify any significant new fraud areas from previous documents, but "*updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan.*"

In the Executive Summary, the document:-

- "*calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment*"
- "*calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement*"
- "*sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.*"

It also states that:-

- *“it is now for elected members, chief executives, finance directors and all those charged with governance to ensure this strategy is adopted and implemented in their local authorities.”*

The document advises:-

“In response to these challenges, local authorities will need to continue to follow the principles developed in Fighting Fraud Locally 2011 (FFL):

- **Acknowledge:** *acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.*
- **Prevent:** *preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.*
- **Pursue:** *punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.”*

“Our vision is that by 2019:

- *there is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them*
- *by better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services*
- *local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery*
- *local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses*
- *fraudsters will be brought to account quickly and efficiently and losses will be recovered.”*

With the past work performed on counter-fraud processes and specific high-risk areas, the Council is already well-aligned with the local elements of FFL. Internal Audit will continue to consider current and emerging fraud risk, both generally and in future Service area audits.

Chief Executive Statement

The FFCL 2016 document repeats the 2011 message that *“acknowledgement must start at the top and lead to action”*. In response to this, the Council’s Chief Executive (Nigel Lynn) has affirmed that:-

“This Council recognises that fraud is a significant issue nationally and that every successful fraudulent act places an additional financial burden on the honest residents and taxpayers of the District. In collaboration with both central government and our local partners, we will ensure that effective ongoing measures are in place to prevent, detect and pursue fraud against the Council.”

Counter-Fraud Activities

General

The Council is required to provide information on fraud arrangements, etc. in response to the annual request from the external auditors (Ernst & Young LLP), relating to the risks of, identification of and responses to fraud (relevant to ISA 240 – ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’).

The Council also participates in the annual (national) fraud survey conducted by CIPFA, which resulted in their ‘Fraud & Corruption Tracker summary report’ in 2017. The content of this report was drawn to the attention of senior management and the members of the Audit & Governance Committee

Various publications and briefings on fraud are held by the Council (e.g. from central government, CIPFA, etc.) and the guidance and recommendations in these documents has been used as a basis for counter-fraud work by Internal Audit.

Arun District Council has a ‘zero-tolerance’ policy towards fraud and is committed to the prevention, detection and investigation of fraud and corruption. It is expected that all those who work for, serve or deal with the Council will act in a fair and honest way.

The Council has a specific Anti-Fraud, Corruption & Bribery Policy, including the requirements of the Bribery Act 2010, which was adopted by Full Council in October 2013. (This policy will require review and update in 2018, once Constitution, Code of Conduct and structure changes have been completed). There are also other policies and procedures that support and promote this.

There is also a published Fraud Response Plan, which has been reviewed / updated and the changes noted by the Audit & Governance Committee in December 2017.

The Council’s Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998) was reviewed / updated in 2017 and is published on the Council’s web site.

The Fighting Fraud Locally strategy recommended that Councils publicise the risks of fraud and encourage public response. Information on the key fraud risk areas facing the Council and contact numbers for members of the public to report suspected fraud cases / concerns is set up as a ‘Fraud’ area on the Council’s web site. A small number of articles in relation to fraud (e.g. Single Person Discount) have also been provided by the Council for publication in the local press and updates have been provided to Members (e.g. in respect of the housing tenancy fraud pilot).

No fraud and / or corruption investigations have been carried out during the year in respect of Members, under the Code of Conduct.

Benefits Investigations

Until December 2015, the Council had a small dedicated Benefits Investigations team handling benefit-related fraud and investigations. Under the Welfare Reform Act 2012, benefits investigations were centralised into a ‘Single Fraud Investigation Service’ operated under the control of the DWP, although the Council is still required to provide data to support DWP investigations. Members of the public are still encouraged to report suspected incidents of fraud

via the National Benefit Fraud Hotline or through a link to the appropriate www.gov.uk pages on the Council's website.

Housing Tenancy

As advised in past reports, housing tenancy fraud is an area of significant concern to the Government and this is now a criminal offence under the Prevention of Social Housing Fraud Act 2013.

The Council has over 3300 properties in its social housing stock. In 2017, following a successful pilot exercise, a dedicated Housing Fraud Investigator post (funded through the Housing Revenue Account) has been added to the Council's structure on a permanent basis. In addition to investigating active fraud leads, the Investigator's remit includes prevention, working with other areas of Housing in respect of:-

- the verification process for acceptance to the Housing Register
- the process for verifying Right To Buy entitlement to purchase Council properties
- exchange and succession requests.

The arrangement continues to be successful and of considerable benefit to the Council, (in 2017/18):-

- 15 properties brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit (3 of these had been sub-let to other family members)
- 1 inappropriate Right To Buy applications refused
- 4 inappropriate applications to the Housing register prevented.

(Prevention of housing tenancy fraud allows the placement of new tenants from the Housing Register and potentially reduces emergency B&B costs – the industry standard indicative notional 'value' attached to this is now £93k per property recovered).

Council staff attend meetings of the Sussex Tenancy Fraud Forum and Housing management will continue to consider improvements in how potential fraud cases may be identified and investigated in the future. This may involve additional publicity in respect of the issue, additional visits to Council properties and further liaison with local social housing providers. The Council is also a member of the National Anti-Fraud Network (NAFN) and appropriate information may be obtained from them to assist in investigations work.

Other Investigations

Other than the two above areas, all other fraud work is the responsibility of Internal Audit (except for any electoral fraud issues, which are handled by the Returning Officer / Police).

National Fraud Initiative

The Council is a mandatory participant in the National Fraud Initiative (NFI), now operated by the Cabinet Office. This is a data matching exercise that involves comparing records held by one body against other computer records held by the same or another body to see how far they match. An example would be comparing Arun District Council Housing Benefit claimants with the licensed taxi drivers recorded by other Councils.

In 2017, the Council continued with its review of the reports received based upon the data provided to the Cabinet Office in October 2016 (covering a wide range of areas e.g. housing, licensing, payroll, creditors, etc.) which resulted in some minor tenancy and invoice / VAT queries referred to Housing and Finance staff respectively.

Work on the NFI Council Tax Single Person Discount review (based upon data provided in October / December 2016) was completed in 2017. However, this overlapped the exercise that Revenues had undertaken in 2016/17 using external credit reference data (as reported last year) and the NFI exercise only resulted in a further re-billing of c.£10k.

In December 2017, Council Tax and Electoral Roll data was also provided for annual Council Tax SPD entitlement checking and queries on the reports received are awaiting review. This work has been delayed owing to the significant numbers of potential deletions to be made to the Electoral Roll which are being worked on by Electoral Services staff (following significant numbers of changes to voter records from the EU Referendum, the UK general election and the 2017 annual canvass). Once this work has been completed, a revised register will be used to identify cases in the NFI reports which can be removed and the remaining cases will then be reviewed.

Other Revenues Activity

The Council's Revenues area also undertakes a number of other checks in order to reduce the risk of fraud in respect of the eligibility for Council Tax and Non-Domestic Rates (NDR) exemption or reduction. These include:-

- inspection of empty business rated properties
- review of mandatory and discretionary NDR discounts
- review of entitlement to Council Tax exemptions and other discounts
- inspection of residential properties that have been empty for more than 2 years
- contact by the Empty Homes Officer with homeowners where the property has been empty for 6-18 months.

In respect of the last 2 points, a further 75 properties had the 'empty' status removed in 2017/18 (with over 200 in the last 3 years) which will result in additional New Homes Bonus income.

Local Government Transparency Code

The Local Government Transparency Code, *'issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services'* was extended in 2014 to include fraud information.

The Council must now publish certain information on its counter fraud work on an annual basis and this will contain some information that is covered in more detail in this report (see Appendix 2 – which is published on the Council's website).

Future Activities

Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone cannot guarantee that fraud or corruption will be detected.

Internal Audit (or the Housing Fraud Investigator for tenancy-related cases) should be informed of all suspected or detected fraud, corruption or improprieties for investigation and to allow the effectiveness of any relevant controls to prevent / detect such cases to be reviewed. The implications of any identified fraud and corruption will also be assessed against the Council's

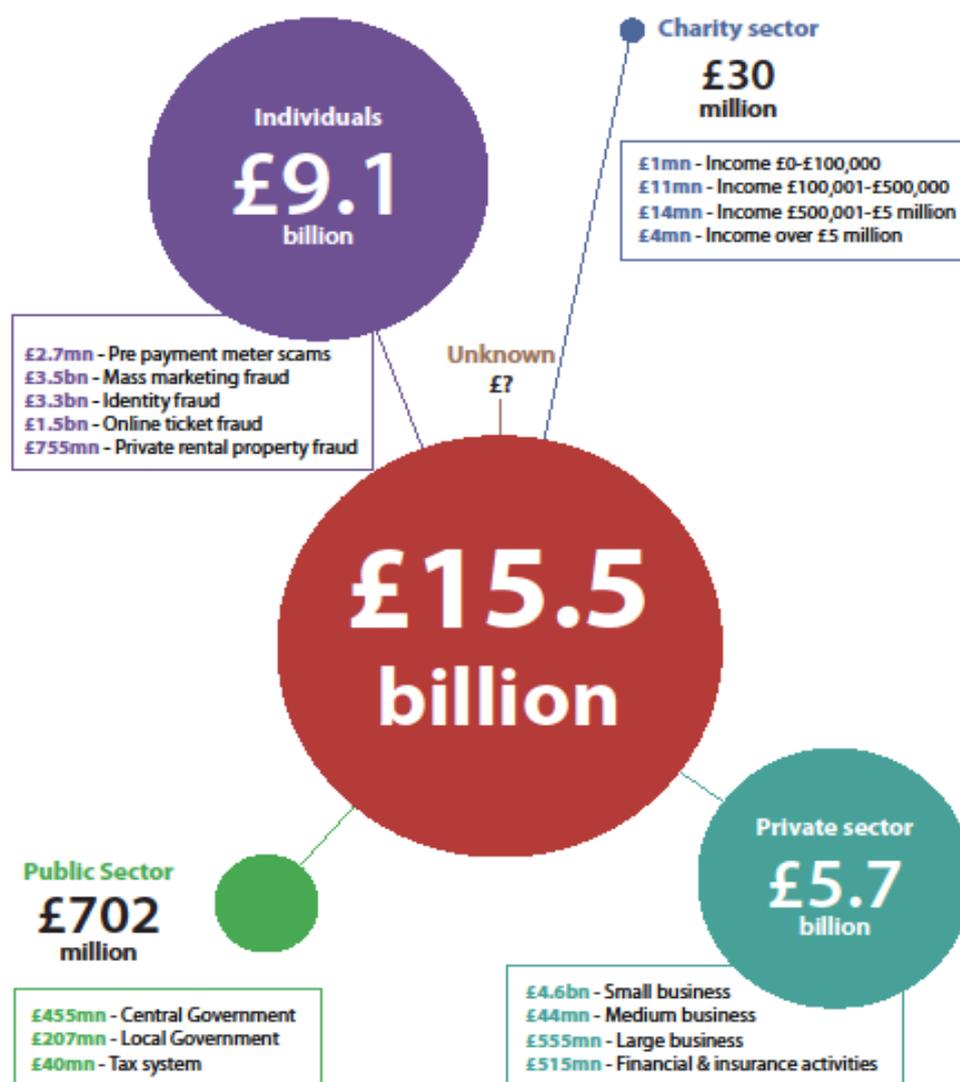
overall governance arrangements. Internal Audit provides an annual opinion on the adequacy and effectiveness of the systems of internal control operating within the Council and any identified cases of fraud or corruption may influence this opinion.

Further to the publication of CIPFA's Code of Practice on Managing the Risk of Fraud & Corruption and the revised Fighting Fraud & Corruption Locally strategy, the Council will consider the content and the actions to be taken in the coming years and:-

- will monitor the progress of national initiatives and engage in the various consultations that will be required to implement the strategy
- will continue to examine reports on initiatives undertaken at other local authorities, together with published guidance and advisory documents, to ensure that lessons learnt and emerging fraud risks are considered as part of our counter-fraud activities
- will continue to assess our current activities against the best practice contained in the strategy for local consideration and ensure that our counter-fraud activities are as effective as possible
- will ensure that appropriate counter-fraud measures remain in place in service areas impacted by the management / operational restructures that have taken place as part of the Council's Vision 2020 initiative.

A significant amount of counter-fraud work is already performed by the Council and further work will be undertaken in high-risk areas (such as Council Tax and Housing), in addition to the continual consideration of emerging fraud risks and assessment of the Council's policies and procedures against best practice and appropriate guidance notes.

Figure 1: Identified fraud loss estimates by victim

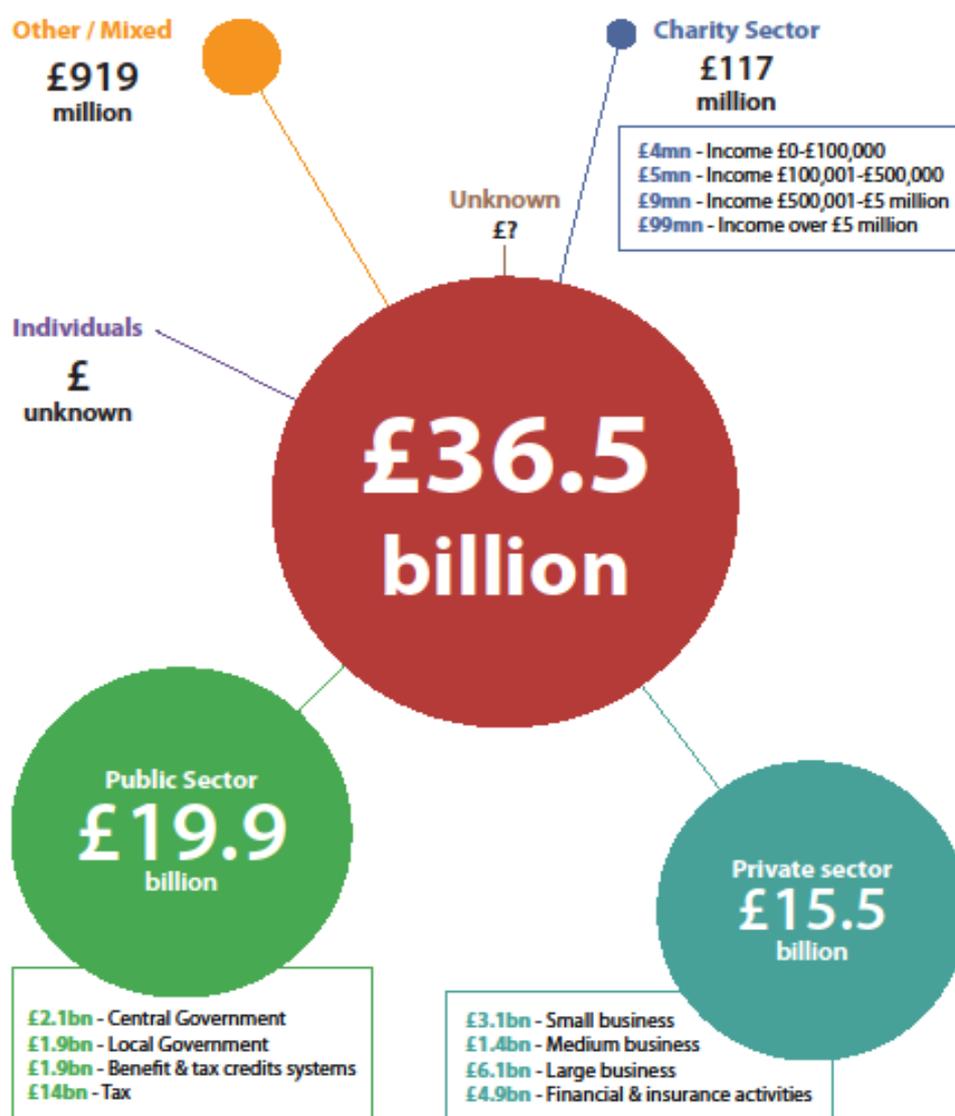


N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

The identified fraud loss figures are likely to be an under estimate in some areas where the NFA have not been informed of detected losses, therefore, fraud losses are unknown, rather than zero or not present. See annex 2 for fraud by type breakdown.

Please note figures may not add up exactly due to rounding.

Figure 2: Hidden fraud loss estimates by victim



N.B: It is not always possible to clearly demarcate fraud types to identified or hidden fraud losses as some estimates spread across both. The hidden fraud loss estimate therefore includes those estimates that bridge both hidden and identified fraud losses (see annex 2).

See overleaf and annex 2 for a breakdown of losses within victim type.

Please note figures may not add up exactly due to rounding.

Annex 2: Breakdown of losses by victim

Fraud loss by victim sector	Victim	Total estimated fraud loss	Fraud type	Fraud loss	Identified loss	Hidden loss
Public Sector £20.6 billion	Tax system	£14.0 billion	Tax fraud	£14.0 billion	£40 million	£1.4 billion
			Vehicle excise fraud	£40 million		Unknown
			Procurement fraud	£1.4 billion		£1.4 billion
			Grant fraud	£504 million		£504 million
			Television licence fee evasion	£204 million		£204 million
			Payroll fraud	£181 million	£181 million	Unknown
	Central government	£2.6 billion	NHS patient charges fraud	£156 million	£156 million	Unknown
			NHS dental charge fraud	£73 million	£73 million	Unknown
			Student finance fraud	£31 million	£31 million	Unknown
			Pension fraud	£14 million	£14 million	Unknown
			National Savings and Investments fraud	£0.40 million	£0.40 million	Unknown
			Housing tenancy fraud	£845 million		£845 million
			Procurement fraud	£876 million		£876 million
			Payroll fraud	£154 million	£154 million	Unknown
Local government	£2.1 billion	Council tax fraud	£133 million		£133 million	
		Blue Badge Scheme misuse	£46 million	£46 million	Unknown	
		Grant fraud	£35 million		£35 million	
		Pension fraud	£71 million	£71 million	Unknown	
Benefit and tax credits systems	£1.9 billion	Benefit fraud	£1.2 billion		£1.2 billion	
		Tax Credits fraud	£670 million	£670 million		

*Black, red, amber, green (BRAG) Assessment: Confidence Indicator

BRAG	Level of confidence
Black	Poor
Red	Average
Amber	Good
Green	Excellent

Note:

Perceived level of confidence is based upon management assumptions and judgement to provide an illustrative indication of the quality of data available to produce an estimate.

NB: It is not always possible to demarcate clearly the fraud by type estimates to identified or hidden losses as some estimates spread across both. Further, it should be noted that fraud identified as being 'unknown' does not mean that no fraud exists, but rather that no fraud has been identified, measured or is estimable. Not all fraud types are included in the breakdown due to the possibility of double counting. Due to rounding some figures may not add up exactly.

Counter-Fraud for data transparency

S43 of the Local Government Transparency Code 2014, requires local authorities to publish information about their counter fraud work.

The attached figures cover the period 1/4/2017 – 31/3/2018.

Number of occasions powers were used under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers

- Internal Audit Not used
- Revenues Not used
- Benefits Not used
- Housing 12

Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud

- Internal Audit One employee (approx. 0.1 FTE) may be involved in investigations that could relate to fraud and also reviews potential fraud cases from annual National Fraud Initiative (NFI) reports received
- Benefits Investigations staff were transferred to the DWP SFIS in December 2015
One employee (0.65 FTE) is now engaged in a fraud liaison role
- Housing Housing Fraud Investigator (1 FTE)
- Legal Services No prosecutions in 2017/18

Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists

- Internal Audit None
- Benefits None
- Housing 1

Total spent by the authority on the investigation and prosecution of fraud

- Internal Audit c. £5k (based upon staff time)
- Revenues c. £2.5k (additional review of NFI reports)
- Housing c. £42k (staff time, appropriate subscriptions and fees, etc.)

Total number of fraud cases investigated

- Internal Audit General review of NFI reports only
- Revenues Information provided for 'joint' review by DWP – 180
Council Tax Reduction cases reviewed by the Council – 6
Other cases - 2
- Housing 15 properties brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit
1 inappropriate Right To Buy applications refused
4 inappropriate applications to the Housing register prevented.

It should be noted that more detailed information on the Council's counter-fraud activities is presented to the Audit & Governance Committee in July, covering the previous financial year. A copy of this report is provided on the Data Transparency web page. <http://www.arun.gov.uk/transparency>