



# Audit & Governance Committee

## Counter-Fraud Report 2015/16

## **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 March 2012, the National Fraud Authority (NFA) published its "Fighting Fraud Locally" document. In 2016, CIPFA has 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, 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 identified to external bodies for:-

- 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 external auditors' logging of the details of any fraud cases where the value exceeds £10k.

The Council also participates in the annual (national) fraud survey. This was formerly run by the Audit Commission and was replaced in 2015 by 2 separate surveys:-

- The European Institute for Combatting Corruption and Fraud (TEICCAF), which resulted in the production of their report 'Protecting the English Public Purse 2015'
- CIPFA, which resulted in their 'Fraud & Corruption Tracker summary report' in 2015.

The content of these reports 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 last reviewed / approved by the Council's Audit & Governance Committee and adopted by Full Council in October 2013. 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 was approved by the Audit & Governance Committee in September 2011.

The Council's Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998) was reviewed / updated in 2013 and is published on the Council's web site. In 2015/16, one incident was reported under this policy and an appropriate investigation was conducted.

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.

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. The Manager of this team had been a shared resource between Arun and Chichester District Councils for a number of years.

Under the Welfare Reform Act 2012, the Government centralised benefits investigation into a 'Single Fraud Investigation Service' operated under the control of the DWP with Arun's team transferred to the new arrangement in December 2015. 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](http://www.gov.uk) pages on the Council's website.

In the period April-December 2015, the team carried out 51 investigations that identified overpayments of c.£347k and lead to a sanction against 32 of the claimants (6 successful prosecutions, 25 Administrative Penalties and 1 caution).

### ***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 Social Housing Fraud Act 2013.

The Council has c.3300 properties in its social housing stock. Until the end of 2015, investigations were carried out jointly by Housing and Benefits Investigation staff, acting on internal and external (residents and the Police) information received. As noted above, the Benefits Investigation staff have now been transferred to the DWP SFIS.

From the start of 2016, a pilot exercise has commenced with the creation of a dedicated Housing Fraud Investigator post (funded through the HRA). In the first quarter, 36 cases have been referred for investigation with 22 still in progress. 7 properties linked to housing tenancy fraud investigations have been recovered (allowing placement of new tenants from the Housing Register and potentially reducing emergency B&B costs – the industry standard ‘value’ attached to this is £18k per property) and 1 right to buy application has been refused, pending appeal.

Council staff have attended meetings of the Sussex Tenancy Fraud Forum and Housing management will 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.

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.

### ***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 2015, the Council completed its review of the reports provided to the Audit Commission in October 2014, which resulted in adjustment of a small number of benefits cases and some minor tenancy and invoice / VAT queries referred to Housing and Finance staff respectively.

In December 2015, Council Tax and Electoral Roll data was provided to the Cabinet Office (who have now taken over responsible for the NFI) for Council Tax SPD entitlement checking and queries on the reports received are currently under review. This is now an annual exercise - the

next NFI exercise in October 2016 will also include the provision of the wider range of data (e.g. housing, licensing, payroll, creditors, etc.).

### ***Council Tax Single Person Discount***

In 2015 the Revenues section undertook a review of Single Person Discount entitlement in collaboration with an external credit reference agency (CRA). As a result of this 501 accounts had the SPD removed with an approximate rebilling value of £200k. (With the agreement of WSCC, the costs of using the CRA were split between the 2 Councils).

It should, however, be noted that:-

- only around 11% of re-billing is of benefit to the Council (as the major part applies to the WSCC, Sussex Police and parish precept elements)
- these figures may also reduce where there are changes to the accounts in 2016.

As noted above, the 2015 NFI exercise focussed on Council Tax SPD by matching claimants against the Electoral Roll. The results of this exercise were provided to the Council in December 2015 and a number of accounts are currently under review by Revenues staff.

This was the first such NFI exercise to be run using Electoral Roll data under the Individual Electoral Registration (IER) regime and a number of issues were noted and reported to the responsible area of the Cabinet Office:-

- despite an annual canvass in the year, there had not been an improvement in the response rate (c. 80%). This is understood to be partly due to elector unfamiliarity with the changed processes and it is hoped that registration rates will increase in 2016 because of the forthcoming EU Referendum
- a considerable number of elector names were identified as unconfirmed from the DWP confirmation / annual canvass processes and were flagged for potential deletion. However, the Cabinet Office instructions were that these could not be deleted by Electoral Services until they had been confirmed to a secondary source (e.g. Council Tax data). At the time of the NFI run these names still remained on the Electoral Roll provided for the NFI exercise and this resulted in the review of a large number of false entries on the reports received. Electoral Services advise that work has been completed to deal with these and it has been agreed with the Cabinet Office that such cases will be excluded from future Electoral Roll files provided to them for matching.

Revenues will consider further exercises making use of 3<sup>rd</sup> party data in future years, either individually or in collaboration with other West Sussex councils.

### ***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, Revenues advise that c.180 further properties have had the 'empty' status removed, 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.

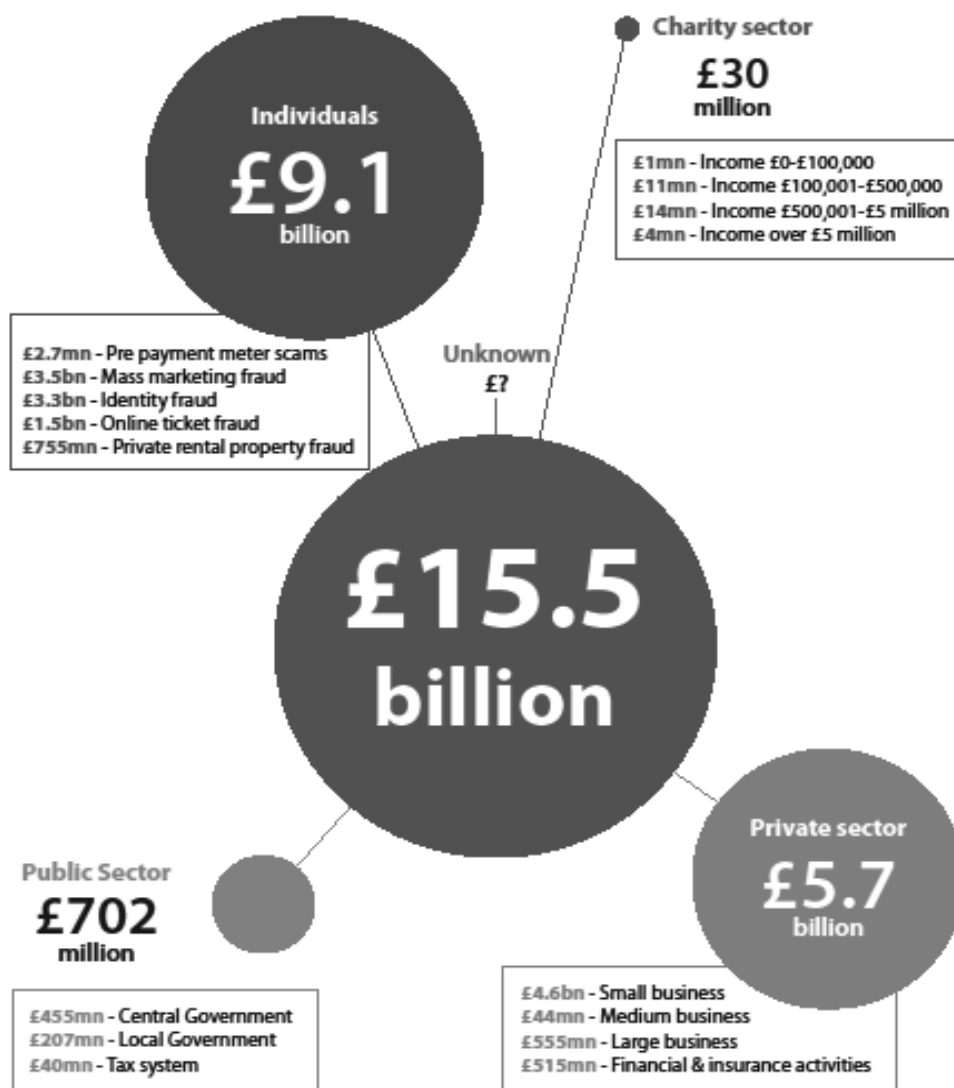
Further to the publication of CIPFA's Code of Practice on Managing the Risk of Fraud & Corruption and the new Fighting Fraud & Corruption Locally strategy, the Council will consider the content and the actions to be taken in the coming years and:-

- 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 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 are included if services are to be shared or outsourced in the future, as part of the Vision 2020 initiative currently being progressed.

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.

Annual Fraud Indicator 2013

Figure 1: Identified fraud loss estimates by victim



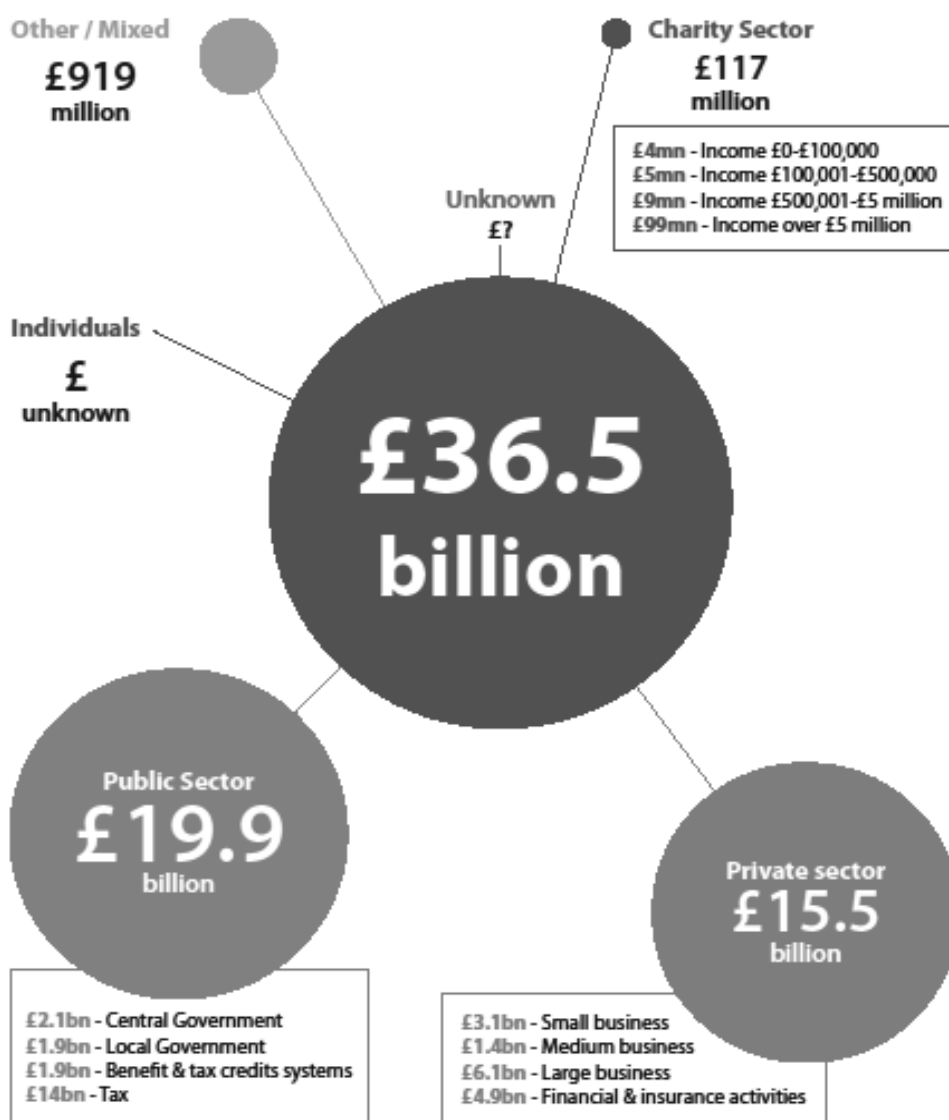
N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

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	£14.0 billion	Unknown
			Vehicle excise fraud	£40 million	£40 million	Unknown
			Procurement fraud	£1.4 billion	£1.4 billion	Unknown
			Grant fraud	£504 million	£504 million	Unknown
			Television licence fee evasion	£204 million	£204 million	Unknown
			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	Unknown	
		Procurement fraud	£876 million	£876 million	Unknown	
Local government	£2.1 billion	Payroll fraud	£154 million	£154 million	Unknown	
		Council tax fraud	£133 million	£133 million	Unknown	
		Blue Badge Scheme misuse	£46 million	£46 million	Unknown	
		Grant fraud	£35 million	£35 million	Unknown	
		Pension fraud	£71 million	£71 million	Unknown	
Benefit and tax credits systems	£1.9 billion	Benefit fraud	£1.2 billion	£1.2 billion	Unknown	
		Tax Credits fraud	£670 million	£670 million	Unknown	

\*Black, red, amber (BRAG) Assessment Confidence Indicator

BRAG	Level of confidence
	Poor
	Average
	Good
	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.

## Appendix C

**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 1/4/2015 – 31/3/2016.

**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                 Not used

**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                 1.8 Investigators. 0.3 Manager (2.1 FTE) – *until Dec 2015 only, when staff transferred to the DWP SFIS (1.57 FTE for year)*
- Housing                 Ad hoc – liaison with Investigations – *until Dec 2015*  
1 Housing Fraud Investigator – *from Jan 2016 (0.25 FTE for year)*
- Legal Services         No prosecutions in 2015/16

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

- Internal Audit            None
- Benefits                 2.1 – *until Dec 2015 only, when staff transferred to the DWP SFIS (1.57 FTE for year)*
- Housing                 1 – *from Jan 2016 (0.25 FTE for year)*

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

- Internal Audit            c. £5k (based upon staff time)
- Revenues                c. £2k (additional review of NFI reports)  
c. £4k (credit reference agency matching)
- Benefits                 c. £95k (staff time and legal costs)
- Housing                 c. £11k (proportion of staff time)

**Total number of fraud cases investigated**

- Internal Audit / Revenues  
The Council undertook a review of Council Tax Single Person Discount entitlement in 2015, using credit reference agency data. c.800 leads were

reviewed by Revenues staff and 501 accounts subsequently had bills altered – however, these were not classed as formal ‘fraud’ investigations

- Benefits 51
- Housing 36

It should be noted that information on the Council’s counter-fraud activities is presented to the Audit & Governance Committee in June, covering the previous financial year. A copy of this report is provided on the Data Transparency web page.