CORPORATE GOVERNANCE PANEL   26 JUNE 2012

ANTI-FRAUD & CORRUPTION MEASURES

(Report by the Audit & Risk Manager)

1.   INTRODUCTION

1.1   This report:
- outlines the new Local Government Fraud Strategy.
- explains the actions currently taken in a number of potential fraud areas which are resulting in fraud levels in Huntingdonshire that are significantly lower than the perceived average.
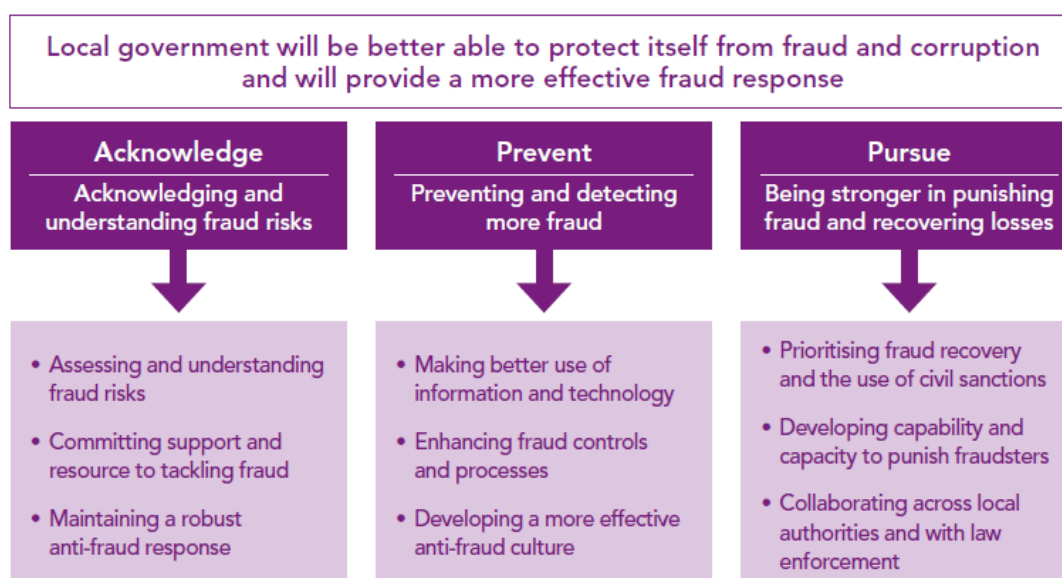- proposes a further report to discuss the Local Government Fraud Strategy "commitments" and recommendations.

2.   LOCAL GOVERNMENT FRAUD STRATEGY

2.1   In April 2012 the Home Office, via the National Fraud Authority (NFA), published the Local Government Fraud Strategy to meet a recommendation made in Fighting Fraud Together (2011), the national plan to reduce fraud. Over 400 individuals from a wide range of council and local government bodies were consulted, including the Council's Fraud Manager, during its development.

2.2   A copy of the Strategy has been circulated to Members of the Panel.

2.3   Every local authority is being encouraged to implement the recommendations (referred to as 'commitments' – see section 4) to help identify and address their own levels of fraud.

2.4   The document calls for local authorities to adopt a tougher approach to tackle fraud, organised around the three themes of Acknowledge, Prevent and Pursue.

Local government will be better able to protect itself from fraud and corruption and will provide a more effective fraud response

Acknowledge	**Prevent**	**Pursue**
Acknowledging and understanding fraud risks	Preventing and detecting more fraud	Being stronger in punishing fraud and recovering losses
• Assessing and understanding fraud risks • Committing support and resource to tackling fraud • Maintaining a robust anti-fraud response	• Making better use of information and technology • Enhancing fraud controls and processes • Developing a more effective anti-fraud culture	• Prioritising fraud recovery and the use of civil sanctions • Developing capability and capacity to punish fraudsters • Collaborating across local authorities and with law enforcement

3. FRAUD LOSSES

3.1 The Strategy suggests that each Council should acknowledge that it is subject to fraudulent action and therefore there are opportunities for savings if cost-effective anti-fraud measures are taken.

The NFA have estimated the Council's level of fraud based on
   a. statistics submitted to, and published on the website of the Dept of Communities & Local Government.
   b. An indicative estimate of losses as contained in the Audit Commissions "Protecting the Public Purse 2011" report, and the NFA "Annual Fraud Indicator 2011" report

The resulting **hypothetical** figures for Huntingdonshire are:

Service	Lower Estimate	Upper Estimate
Council Tax	£ 330,000	£ 560,000
Procurement	£ 390,000	£ 650,000
Payroll	£ 40,000	£ 70,000
Total	£ 760,000	£1,280,000

The NFA acknowledges that real losses will depend upon the resilience the local authority has to fraud. Experience across the Council shows that our position is likely to be lower than the NFA's estimates, as explained in the following paragraphs.

Council Tax Fraud

3.2 Council Tax fraud is predominantly due to incorrectly claimed discounts and exemptions and the main element is single person discount (SPD). The Council has always been proactive in this area, targeting about 6,000 claims for review each year (between a quarter and a third of the total). Because this is done the Council has achieved lower success rates from the National Fraud Initiative (NFI) data matching than those authorities who have not got this as part of their annual process.

3.3 This year, for the first time, all local authorities in Cambridgeshire have provided their Council Tax data to a commercial organisation who have used credit checking and other sources of information to review all SPD claims. Based on their past experience they estimated that the Council should save 4% or £240k.

The output is currently being reviewed but, so far, savings of only £40k have been identified. A report detailing the outcome of the exercise will be presented to Panel at a future meeting.

3.4 The Fraud Team, through their work on Housing Benefit and Council Tax benefit claims, identified around 100 fraudulent SPD claims in 2011/12, amounting to £35k.

Whilst not being complacent, the results above suggest the estimates provided by the NFA are too high.

Procurement Fraud

3.5   Procurement fraud is any fraud relating to the purchasing of goods and services. It covers the entire procure-to-pay lifecycle, including fraud in the tender/bidder selection and contract award stages (for example, illicit cartel activity or bribery of an official to influence the tendering process) as well as fraud occurring during the life of the contract (for example, false, duplicate or double invoicing).

3.6   Procurement fraud is one of the hardest types of fraud to identify, particularly at the pre-contract award phase. It is a difficult area to tackle due to the complexity of procuring goods and services across so many spending areas. The areas that pose the highest risk of fraud are those associated with the selection and evaluation of tenders, and paying for works or services that have not been delivered or have been overvalued.

3.7   Panel members will be aware that a piece of work is currently underway to examine the awarding of tenders and it is expected that the findings from that review will be reported to the next meeting. Whilst Panel will be aware of previous concerns surrounding the non compliance with the Code of Procurement, there has been no evidence to date of either individual or systematic cases of procurement fraud.

Payroll Fraud

3.8   Any employee can perpetrate fraud against their employer. Responsibility is often delegated down to employees to ensure the smooth running of finances and service delivery. This transference of responsibility brings about its own inherent fraud risks.

3.9   Types of employee fraud are wide-ranging and can include misuse of time and resources, fraudulent claims for allowances and expenses, failure to register or declare conflict of interests or the acceptance of gifts and hospitality, as well as the manipulation of finance and payroll systems. It also includes staff pre-employment fraud, where false information is given in order to gain employment.

3.10   Internal audit regularly undertake work in respect of employee systems, such as those mentioned above. Whilst a number of cases of fraud are identified each year, mainly through whistleblowing, they have been of low value. One of the strongest defences against employee fraud is maintaining clear controls and separation of duties. The NFA recommends the fraud proofing of new or amended policies, systems and delivery models so that fraud risks can be designed out at the earliest opportunity. However there is a clear balance to be struck between the cost of controls and the potential savings. Internal Audit will ensure that this trade-off is a fundamental element in the decisions on system design or modification.

4.   NFA COMITTMENTS

4.1   The Strategy sets out a number of key commitments that, if introduced across the entire local government sector will allow authorities to become more aware of their fraud risks whilst becoming more resilient to the threat of fraud.

The commitments are at two levels – national and local.

- o   National commitments will need the support of the Government, external auditors, other external fraud preventative groups and organisations in order to be developed and introduced.

- o   Local commitments need the support of all local government authorities so that effective systems for ensuring that anti-fraud arrangements are in place and working. For example, one of the commitments proposes membership of the national database that retains records of employees who have resigned or being dismissed on account of perpetrating a fraud.

4.2   The local commitments are listed in Annex A. A full review of the implications of meeting the local commitments has not yet been completed. It is proposed that a report be presented to the Panel once this has been done.

5.   CURRENT ANTI-FRAUD & CORRUPTION MEASURES

5.1   A number of best practice documents and guides have been produced in recent years. These include:
- CIPFA 'Managing the Risk of Fraud' book (checklist of 56 points)
- 'Protecting the Public Purse' published by the Audit Commission (checklist of 26 points)
- NFA checklist (of 34 points) which requires both of the above documents to be completed.

5.2   Whilst the checklists cover many of the same points, the 'Protecting the Public Purse' checklist has been specifically devised for those charged with governance to enable them to review counter-fraud arrangements. It is proposed that a report be submitted to the Panel detailing the arrangements in place to manage the issues in the checklist (attached at Annex B).

5.3   Protecting the Public Purse also included a number of recommendations to further improve counter-fraud activity. These are listed at Annex C and it is proposed that these be formally reviewed and reported to the Panel at the same time as the commitment review (see para 4.2).

6.   UPDATE ON THE ACTION PLAN FROM THE 2010 REVIEW

The framework of control measures countering fraud were last considered by the Panel in 2010. The framework was based on best practice at the time and three issues were identified:

1. Fraud and corruption awareness training should be provided for employees, members and those managers who have key responsibilities for anti-fraud and corruption arrangements;

   An e-learning fraud awareness training module has been written. However the NFA are issuing a fraud e-learning/awareness raising training package which it is intended to compare against the in-house product before a decision is taken as to which product to launch. A short booklet was published on the intranet in 2010 to help raise awareness of the steps that employees can take to counter fraud.

2. Demonstrate that contractors have confidence in the whistleblowing arrangements and are aware how to make a disclosure;

   The Council's contract terms and conditions refer to the whistleblowing procedure in place. The internet procurement webpage also has a document that explains to suppliers our approach to whistleblowing and how they can report an issue.

3. Anti-money laundering guidance will be reviewed to reflect legislative changes .

   The anti-money laundering guidance has been reviewed. The Code of Financial Management states that no cash payments in excess of £1000 will be accepted. It is unlikely that at such a low level, criminals will consider using the Council for money laundering purposes.

6.1   The Council has good 'preventative' internal control measures in place and good 'pursuit' mechanisms which together account for the lower than average extent of fraud perpetrated against it and the prompter identification and resolution for those that do occur.

6.2   The risk register contains three risks that deal with the risk of fraud occurring.

   75   Fraud, financial or other irregularities occur leading to additional financial costs, unforeseen investigation costs & reputation damage.

   144   Housing Benefit fraud goes undetected leading to loss of funds from public purse.

   234   Employees of the Council who act in isolation or conjunction with a colleague accept an inducement/bribe leading to them acting outside of agreed policies and procedures and bringing the Council into disrepute.

The controls in place to reduce and manage these risks are considered to be in place and working effectively.

7. BRIBERY

7.1   In December 2010 the Panel requested Heads of Service to review and identify service areas that may be susceptible to bribery and introduce controls to minimise the opportunity for bribery to occur.

7.2   This review has been completed and a summary of the service areas identified is contained in Annex D.

7.3   Separation of duties and the availability of written procedures are the main controls that have been identified to mitigate bribery risks.

8. RECOMMENDATION

8.1   It is recommended that the Panel:
- Acknowledge that robust controls are in place to counter-fraudulent activity and that as a result fraud is significantly less than national estimates;
- Support the aims of the Local Government Fraud Strategy;
- Note that reports will be received on the approaches to countering fraud as outlined; and
- Note that a review of service bribery risks has been completed.

BACKGROUND INFORMATION
National Fraud Authority The Local Government Fraud Strategy
Audit Commission Protecting the Public Purse 2011

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**Local Government Fraud Strategy
Local Commitments**

Acknowledge & understanding fraud risks	Preventing & detecting more fraud	Being stronger in pursuing & punishing fraud & recovering losses
The Council should consider:		
Conducting a fraud risk assessment to identify their own fraud threat and using the fraud loss tool to determine their likely fraud risk exposure.	Deploying data analytic tools in their areas of risk for the purpose of preventing and detecting fraud.	Ensuring that the local authority has access to appropriate specialist investigative resource, including financial investigators, and explore options on whether access to these services can be shared across local authorities.
Membership of the National Anti-Fraud Network (NAFN).	Collaborating with NFI and NAFN to develop data warehouses for the purpose of data matching fraud prevention services across councils.	Making arrangements with other authorities or partners to ensure access to a financial investigator.
Performing a resilience check of their current capabilities and making use of the free resilience tool which can be accessed via the NAFN website.	Developing a programme of activity to embed a strong anti-fraud culture across departments and delivery agents.	Adopting a parallel sanctions policy for the purpose of taking disciplinary, civil and criminal action against fraudsters and consider the use of fraud recovery for all instances of fraud.
Keeping records of all suspected and confirmed fraud cases and reporting annually at an Audit Committee level, or equivalent, on all matters relating to fraud, including an assessment of the effectiveness of the authority's fraud response.	Using the Audit Commission's Changing Organisational Cultures toolkit to improve staff awareness of fraud risks.	Securing appropriate training for fraud practitioners in line with agreed professional standards for all types of investigation.
Review new policies and initiatives where appropriate (or changes to existing policies and initiatives) to evaluate the risk of fraud and build-in strong fraud prevention controls.	Adopting best practice in staff vetting.	Only employing staff to undertake investigations that are suitably qualified and trained and adhere to a professional code.

**Local Government Fraud Strategy
Local Commitments**

Acknowledge & understanding fraud risks	Preventing & detecting more fraud	Being stronger in pursuing & punishing fraud & recovering losses
The Council should consider:		
Reviewing key systems that may be vulnerable to fraud and ensuring that key fraud risks are managed effectively.	Ensuring that staff and the public have access to a fraud and corruption whistle-blowing helpline, and assure themselves that it conforms to the British Standard for whistle-blowing arrangements.	Adopting a professional code using the codes held by the Institute of Counter Fraud Specialists as a basis.
Developing a response plan aligned with their fraud risk and this strategy, accompanying guidance documents and checklist and reporting on this to senior management and relevant committees.	Membership to the CIFAS (UK's Fraud Prevention Service) staff fraud database.	Working closely with local law enforcement agencies and putting in place locally agreed service level agreements where appropriate.
Convening a high level oversight board, including the Local Government Association and other relevant bodies, and oversee the delivery of this strategy.	Working in partnership with Registered Social Housing Providers to help them tackle fraud in social housing.	
The Local authority representative groups will work with the NFA to promote the approach outlined in this strategy and encourage members to use the free tools and good practice bank.	Continually review system weaknesses and assess the effectiveness of controls in light of the evolving fraud threats across local government, making best use of shared information and intelligence on known fraud and fraudsters.	
	Adopting the good practice on tackling housing tenancy and council tax exemption fraud outlined in the NFA guidance.	

Audit Commission "Protecting the Public Purse"

Checklist for those charged with Governance

General

1. Do we have a zero tolerance policy towards fraud?

2. Do we have the right approach, and effective counter-fraud strategies, policies and plans?   Have we aligned our strategy with Fighting Fraud Locally?

3. Do we have dedicated counter-fraud staff?

4. Do counter-fraud staff review all the work of our organisation?

5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?

6. Have we assessed our management of counter-fraud work against good practice?

7. Do we raise awareness of fraud risks?
   a.   with new staff (including agency staff)
   b.   with existing staff?
   c.   with elected members?
   d.   with our contractors?

8. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?

9. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?

10. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?

11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on the matches investigated?

12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?

13. Do we have effective whistleblowing arrangements?

14. Do we have effective fidelity insurance arrangements?

Fighting Fraud with reduced resources

15. Have we reassessed our fraud risks since the change in the financial climate?

16. Have we amended our counter-fraud action plan as a result?

17. Have we reallocated staff as a result?

Audit Commission "Protecting the Public Purse"

Checklist for those charged with Governance

Current Risks & Issues

Housing Tenancy
18. Do we take proper action to ensure we only allocate social housing to those who are eligible?

19. Do we ensure that social housing is occupied by those to whom it is allocated?

Procurement
20. Are we satisfied our procurement controls are working as intended?

21. Have we reviewed our contract-letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?

Recruitment
22. Are we satisfied our recruitment procedures achieve the following:-
    a. Do they prevent us employing people working under false identities?
    b. Do they confirm employment references effectively?
    c. Do they ensure applicants are eligible to work in the UK?
    d. Do they require agencies supplying us with staff to undertake the checks that we require?

Personal Budgets *(Not Applicable)*
23. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?

24. Have we updated our whistleblowing arrangements for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?

Council Tax
25. Are we effectively controlling the discounts and allowances we give to council taxpayers?

Housing and Council Tax Benefits
26. When we tackle housing and council tax benefit fraud do we make full use of the following:-
    a. National Fraud Initiative?
    b. Department for Work and Pensions Housing Benefit matching service?
    c. Internal Data Matching?
    d. Private sector data matching?

Audit Commission "Protecting the Public Purse"

Recommendations

Councils should:-

1. Ensure they keep the capability to investigate fraud that is not referred to Housing Benefits;

2. Improve their use of data, information and intelligence to focus their counter-fraud work;

3. Review their counter-fraud arrangements in the context of the NFA's strategy for local government "Fighting Fraud Locally";

4. Work with other social housing providers to improve the use of civil and criminal action to deter tenancy fraudsters;

5. Use the Audit Commission's council tax single person discount (SPD) fraud predictor toolkit to assess the potential level of such fraud locally;

6. Review their performance against the NFA's good practice guide on tackling housing tenancy fraud and council tax fraud;

7. Ensure the National Fraud Initiative (NFI) data matches are followed up effectively, including those targeting council tax discount abuse;

8. Follow good practice and match the success of others; and

9. Use the Audit Commissions checklist for those charged with governance (See Annex B) to review their counter-fraud arrangements.

Risks to Services arising through Bribery

Risk of bribery during the process for

the procurement of contracts for the supply of goods, supplier or services

the payment of suppliers

the employment of employees or recruitment process in general

letting of commercial properties

the administration of investments

the allocation of housing

the process for approving or rejecting planning applications

the awarding of grants

the collection of debts

the approval of events in/on Council land/property

accepting/giving sponsorship

Risk of bribery in order to

Avoid enforcement actions (Development Control, Environmental Health, Licensing)

Obtain a licence or permit

Delay the start of a charging period or obtain statutory or discretionary relief against charges (NNDR, Council Tax)

Avoid or obtain a reduction to, or cancellation of, fees and charges (Trade waste, parking fines, markets, general debts)

Receive a benefit to which not entitled (Resident's car parking permit)

Gain access to Council assets for unauthorised use (cutting of lawns & hedges, printing services)

Gain access to private or confidential information held that would not be released via Freedom of Information requests