

North Somerset Audit, Internal Audit

“Prevent
Detect
Correct
Punish
Deter”

Counter Fraud Strategy 2013-15



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If you require clarification on any aspect of the Counter Fraud Strategy or require this document in a different format, please contact Internal Audit.

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Foreword

Counter Fraud Strategy 2013-15

Welcome to the Council's Counter Fraud Strategy 2011-15, which has been endorsed by the Council's Statutory Officers group, the Audit Committee and the Executive Member for Finance, Human Resources and Community Services.

This document supports The Local Government Fraud Strategy "Fighting Fraud Locally".

In the public sector, fraud diverts valuable resources away from those who need them most, our customers.

Counter fraud is integral to the culture and working practices of the Council and historically it has had effective counter fraud arrangements. However, both the Council and the country face unprecedented challenges over the coming years as public spending cuts are introduced to reduce the national deficit and key services are delivered by partners, contractors and volunteers.

Aim of the Counter Fraud Strategy

This Counter Fraud Strategy aims to direct the Council's counter fraud resources on the key areas of fraud risk and bring together the Council's Anti-Fraud and Corruption Policy Statement (contained in the Council's Constitution), the Prosecution Policy Statement and the Money Laundering Policy under one umbrella strategy.

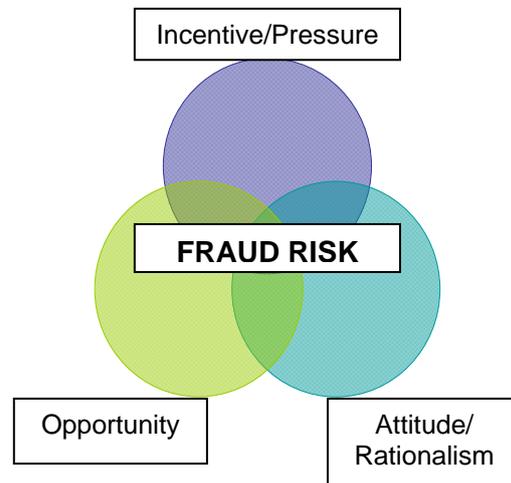
It aims to improve the integration of fraud **prevention** and **detection** into the culture and working practices of the Council, its partnerships, contracts and the civic sector.

The Strategy requires that adequate and effective measures are put in place to **correct** any identified fraud or irregularity and all perpetrators are severely **punished**.

The Strategy continues the Council's stance in maintaining a **zero tolerance** approach towards fraud and irregularity and doing more to **deter** it.

The Heightened Threat of Fraud

There are three conditions that are commonly found when fraud occurs:



The perpetrators experience some **incentive** or **pressure** to engage in misconduct. There must be an **opportunity** to commit fraud and the perpetrators are often able to **rationalise** or justify their actions.

The current economic climate in the United Kingdom and the Government policy of significantly reduced public spending have the potential to **increase the risk of fraud** as never seen before in the public sector, due to:

- Increased **incentives** or **pressures**, primarily as a result of employees' fear of losing their job
- More **opportunities** to commit fraud as internal controls are weakened or in some cases removed
- People's ability to **rationalise**.

As the Council makes significant cuts in its current and future budgets, it is essential that it continues to maintain strong defences against fraud and irregularity, directing its resources most effectively to mitigate the risk of fraud. This will involve working closely with partners, contractors and volunteers to overcome any barriers to effective fraud fighting and making the best use of available information and intelligence.

The Scale of Fraud in the UK

National Fraud Statistics

Fraud now costs the United Kingdom **£73 billion** per annum according to the National Fraud Authority (NFA).

This can be broken down as follows:

	£ billion
Public Sector	20.3
Private Sector	45.5
Individual	6.1

On average, this equates to **£1,460 per adult**.

Fraud in the Public Sector

Fraud costs the Public Sector in the United Kingdom **£20.3 billion** per annum.

This can be broken down as follows:

	£ billion
Tax	14.0
Central Government	2.5
Local Government	2.2
Benefit and Tax Credits	1.6

The Audit Commission have highlighted that local government surveys have shown that although detected fraud losses are low compared with total council spending of £160 billion, significant amounts of money are involved with detected fraud in 2011-12 amounting to **£179m** (*Benefits £117m, Council Tax £21m, procurement fraud £8million and Other £33m*) and **124,000** individual fraud cases.

National Fraud Initiative (NFI)

The National Fraud Initiative is a sophisticated data matching exercise to prevent and detect fraud, and is facilitated by the Audit Commission under statutory powers.

It was established in 1996 and is now undertaken every two years. Over 1,300 mandatory and voluntary participants provide 8,000 datasets.

The exercise for 2012-13 has commenced and the Council is currently investigating the data matches identified. This exercise will be completed during 2013.

Detection of Fraudulent Activity

Knowing the potential extent and reach of fraud is crucial in the fight against it. However, there are still many areas where potential fraudulent activity and fraud loss data is not available, is incomplete or does not exist at all.

The NFA 2011 Annual Fraud Indicator compared their estimate of fraud loss to fraud detected within local government. This identified the risk that only a very small percentage of frauds are actually detected, as low as **1%** in some areas.

Public Sector Fraud and Emerging Risks

Department for Work & Pensions (DWP) and HM Revenue & Customs (HMRC)

In October 2010, the DWP and HMRC jointly issued a new strategy “*Tackling fraud and error in the benefit and tax credit systems*”.

This document sets out a radical new approach and proposals for addressing welfare fraud and error, which currently costs the taxpayer **£5.2 billion** each year (3% of expenditure). Many individual welfare benefits lose over **5%** of their expenditure to fraud and error.

The strategy is based around five key elements: **Prevent, Detect, Correct, Punish and Deter** and proposed a new “*Single fraud investigation service*” (SFIS) to police the anticipated universal credit. This proposal was confirmed in December 2011 and there are currently four pilot SFIS areas. It is expected to roll out nationwide by 2015. The new service will be made up of the fraud investigators currently working for DWP, HMRC and local authorities, plus additional officers. This will have a significant affect on the capabilities and resilience of the Council’s existing Corporate Fraud Investigation Team.

Cabinet Office Counter Fraud Taskforce

In October 2010, a Cabinet Office Counter Fraud Taskforce was set up. It is chaired by Francis Maude MP and has membership from Government Departments and the private sector.

It is promoting a **zero tolerance to fraud** across public services, building on the National Fraud Authority (NFA) report and action plan.

The Taskforce has overseen eight pilot projects which have shown immediate and startling results. On these pilots alone, they expect to save £1.5 billion over the next two to four years.

The Taskforce will translate these recommendations into a concrete implementation plan for roll-out across Whitehall and the wider public sector.

Audit Commission

The Audit Commission document “*Protecting the Public Purse 2012 – Fighting fraud against local government and local taxpayers*” identified the six largest fraud types:

- Procurement
- Abuse of position
- Payroll, pensions, expenses
- Blue badges
- False insurance claims
- Social care.

They have also identified the following emerging fraud risks:

- Business rates
- Social Fund payments and Local Welfare Assistance
- Local Council Tax Support
- Schools
- Grants

PriceWaterhouseCoopers (PWC)

Risk 2010 PWC document “*Navigating your way through stormy waters – A review of fraud risks in the public sector following the comprehensive spending review*” identified the following areas of increased risk of fraud:

- Staff (*insider*) fraud
- Procurement fraud
- Manipulation of data
- Loss of data.

Approach to Counter Fraud

Five Key Elements

The Council has adopted an approach to counter fraud based around five key elements:



Each element is a fundamental component of the Council's **zero tolerance** approach to fraud and irregularity:

Prevent

Stopping frauds and irregularities occurring in the first place.

Detect

Increasing the likelihood of finding frauds and irregularities.

Correct

Promptly stopping frauds and irregularities and recovering any losses incurred by the Council.

Punish

Strengthening sanctions and penalties for those persons committing frauds and irregularities.

Deter

Publicising tough punishments and the increased likelihood of being caught.

This approach builds on the National Fraud Authority (NFA) approach of Acknowledge, Prevent, Pursue.

Sanctions for Proven Benefit / Discount Fraud

There are two sanctions offered by the Council for proven housing and council tax benefit fraud:

- Administrative penalty (Adpen), a financial penalty of either 30% or 50% of the value of the overpayment (dependent on date offence committed), with a minimum penalty of £350 and a maximum penalty of £2,000.
- Prosecution, a permanent record.

In order to more clearly reflect the seriousness of benefit fraud and to act as a stronger deterrent to perpetrators in the future, the Council will initially consider an Adpen as its primary form of sanction for proven benefit fraud.

Where an offence has been committed but the fraud is discovered and stopped before an overpayment of benefit is made, a penalty of £350 can be applied.

A penalty of £70 may also be imposed by the Council on a person who negligently makes an incorrect statement in connection with an application for a reduction under a council tax reduction scheme or where a person fails to notify a change of circumstances when required to do so under a scheme.

It is considered that these financial penalties are a greater deterrent than prosecutions to potential future fraudsters. Furthermore, they are more cost effective for the Council, given the potential costs of prosecution.

The Council reserves the right to prosecute any perpetrator of benefit fraud, should the nature or value of the fraud determine this to be the most appropriate option.

Fraud Risk Assessment

Risk Assessment for the Counter Fraud Action Plan 2013-14

All potential areas of fraud risk were subject to a detailed risk assessment by Internal Audit followed by a review by the Deputy s151 Officer.

The risk assessment considered existing workstreams from previous years and potential areas of fraud risk identified by the Audit Commission, the National Fraud Authority (NFA) and PWC.

The exercise was carried out in order to focus available counter fraud resources on those workstreams considered to be at the greatest risk of fraud or with most potential for income generation.

Each potential workstream was assessed against the following parameters:

- Any statutory or regulatory requirements
- Budget reduction and/or income generation requirements for 2013-14
- Requirement for provision of assurance
- Existence of anti-fraud culture/awareness
- Reputation management
- Ease of prevention, detection, correction, punishment and deterrent
- Resource requirements (*Anticipated expenditure and staffing costs*)
- Inclusion in the annual internal audit assurance plan for 2013-14.

Equalities & Diversity Assessment for the Counter Fraud Action Plan

The Counter Fraud Strategy has been reviewed to ensure it meets the Council's high standards in its Equalities and Diversity policy. This work continues and will be monitored throughout the life of the Counter Fraud Strategy.

Selection of Workstreams

Following the risk assessment exercise, the following workstreams were disregarded from the Counter Fraud Action Plan 2013-14 for the reasons shown:

Workstream:	Reason:
Council tax single person discounts	<p>Work is already carried out by Liberata, the Council's revenues and benefits contractor, resulting in claims being stopped and savings made.</p> <p>The cost of any work carried out by Internal Audit would exceed the value of any financial return for Internal Audit.</p> <p>Work will continue to be carried out by Liberata.</p>
Manipulation/loss of data.	<p>No likelihood of income generation, e.g. Adpens.</p> <p>Both workstreams are included within audit reviews in the annual internal audit assurance plan for 2013-14.</p>

Counter Fraud Action Plan 2013-14

Action	Outcome
Strategy, Policies and Procedures	
Annual review of the following documents: <ul style="list-style-type: none"> • Counter Fraud Strategy 2013-15 <i>(To be updated to reflect the National Fraud Strategy, Protecting the Public Purse and the creation of the Single Fraud Investigation Service)</i> • Anti-Fraud and Corruption Policy <i>(Part of the Constitution)</i> • Prosecution Policy • Money Laundering Policy. 	<p>All documents are “fit for purpose” and incorporate details of new or revised risks of fraud or irregularity and any national changes to the benefit investigation regime.</p> <p>All changes to documents approved by the Council (<i>Constitution</i>) or the Audit Committee.</p>
Counter Fraud Awareness	
Counter fraud alerts: <ul style="list-style-type: none"> • The Knowledge • Members Only – creation of a weblink • Noticeboard • Display Board • Counter fraud intranet site 	<p>Staff, Members, partners, contractors and volunteers (civil sector) have enhanced knowledge and awareness of the risk of potential fraud or irregularity.</p> <p>Increase in good quality internal/external referrals where fraud or irregularity is suspected.</p>
Counter fraud newsletter: <ul style="list-style-type: none"> • Contribute to the West of England newsletter, collated by South Gloucestershire Council • Circulation of articles of relevant interest. 	
Training programme: <ul style="list-style-type: none"> • Continue promoting the counter fraud awareness e-learning module to all staff throughout the council. <i>Consideration to be given to making counter fraud training a mandatory requirement for all managers, at a minimum.</i> • Specific counter fraud awareness training provided to those persons working within areas of increased risk of fraud or irregularity, to new staff and to councillors • Promotion of counter fraud awareness to all partner organisations and contractors of the council. Consider having a promotional stand at all event days • Creation of a counter fraud awareness package that can be sold to academies and other businesses 	
Communication of successful fraud or irregularity investigations and outcomes.	

Counter Fraud Action Plan 2013-14

Action	Outcome
<p>Fraud Risks Informing Risk Management:</p> <ul style="list-style-type: none"> • Work closer with the risk management group to ensure that all fraud risks are considered, evaluated and included within the risks registers where necessary • Involvement in service planning throughout the council to help teams identify their own risks • Attendance at project groups to identify fraud risks that may affect new and/or changing areas of work 	<p>Fraud risks included within risk registers and appropriate action taken to mitigate the risks, resulting in less corporate investigations and reduction in losses to the council.</p>
<p>Housing and Council Tax Benefit Investigation:</p>	
<p>Intelligent sift of referrals to focus limited resources on cases most likely to result in the identification of fraud and issue of a sanction.</p> <p>Prioritisation of high value, capital and employment cases and any “quick wins”.</p>	<p>Recovery of > £36,000 Adpens (budget reduction target and includes excess Adpens from 2012-13)</p>
<p>Data matching:</p> <ul style="list-style-type: none"> • Housing Benefit Matching Service (HBMS) (<i>Department for Work and Pensions - DWP</i>) • Investigator On-line (Experian matches) • National Fraud Initiative (NFI) (<i>Audit Commission</i>) • Internally utilising Council datasets and Incase/Idea for the analysis (<i>if required</i>). 	
<p>Project using land registry data to ascertain whether any benefit claimants own property that they are not living in, but renting to another. If benefit fraud identified, POCA route to be considered for recovery, unless lower value, then Adpen.</p>	
<p>Joint working with DWP:</p> <ul style="list-style-type: none"> • Align practices (<i>where appropriate</i>) • Utilisation of their resources, e.g. prosecution, transcription (use of tapes) and surveillance (<i>where appropriate</i>) • Regular meetings with DWP managers (<i>where appropriate</i>). 	<p>Proactive liaison to minimise any disruption as a result of the transition to the Single Fraud Investigation Service (SFIS) in 2013-14.</p>

Counter Fraud Action Plan 2013-14

Action	Outcome
Corporate Investigations (Internal and External):	
<p>Intelligent sift of all referrals to ensure a formal investigation by Internal Audit is the most appropriate course of action.</p> <p>Prompt referral to the Police of any potentially serious fraud or irregularity (<i>senior management approval required</i>).</p>	<p>Issue of formal Internal Audit reports, incorporating recommendations for disciplinary or management action and/or practice and process changes, to senior management.</p> <p>Appropriate disciplinary or management action taken by senior management in respect of all cases of proven fraud or irregularity.</p> <p>Full recovery (<i>if cost effective</i>) from an individual or insurance policy of all losses suffered by the Council as a result of fraud or irregularity.</p> <p>Civil action (<i>prosecutions</i>) taken by senior management in respect of proven cases of fraud or irregularity (<i>if cost effective</i>).</p>
<p>Data matching referrals:</p> <ul style="list-style-type: none"> • National Fraud Initiative (NFI) (<i>Audit Commission</i>) • Intelligent internal data matching to generate fraud or irregularity referrals, e.g. staff names and addresses matched to creditor payments names and addresses. <p>Investigations to be completed by IA in conjunction with HR and/or relevant managers within Council directorates</p>	
Emerging Risks (<i>reviewed and updated continuously throughout the year, e.g. National Fraud Strategy</i>).	
<p>Business Rates (tax avoidance):</p> <ul style="list-style-type: none"> • Identify and map all large businesses within the North Somerset Area • Calculate possible shortfalls in business rates income • Investigate businesses that are potentially underpaying rates • Action to recover underpaid business rates and prosecute if necessary 	<p>Full recovery (<i>if cost effective</i>) from businesses or insurance policy of all losses suffered by the Council as a result of fraud or irregularity.</p> <p>Full recovery (<i>if cost effective</i>) from an individual or insurance policy of all losses suffered by the Council as a result of fraud or irregularity.</p>
<p>Local Council Tax Support:</p> <ul style="list-style-type: none"> • Ensure robust processes are in place to minimise the opportunity of fraud • Identify all cases of possible fraud and investigate • Action to recover monies and prosecute if necessary 	
<p>Welfare Provision Scheme:</p> <ul style="list-style-type: none"> • Ensure robust processes are in place to minimise the opportunity of fraud • Identify all cases of possible fraud and investigate 	

Counter Fraud Action Plan 2013-14

Action	Outcome
<ul style="list-style-type: none"> Action to recover and prosecute if necessary 	
<p>Public Health</p> <ul style="list-style-type: none"> Understand all potential fraud risk areas Ensure robust processes are in place to minimise the opportunity of fraud Intelligent sift of all referrals to ensure a formal investigation by Internal Audit is the most appropriate course of action Prompt referral to the Police of any potentially serious fraud or irregularity (<i>senior management approval required</i>) 	<p>Issue of formal Internal Audit reports, incorporating recommendations for disciplinary or management action and/or practice and process changes, to senior management.</p> <p>Appropriate disciplinary or management action taken by senior management in respect of all cases of proven fraud or irregularity.</p> <p>Full recovery (<i>if cost effective</i>) from an individual or insurance policy of all losses suffered by the Council as a result of fraud or irregularity.</p> <p>Civil action (<i>prosecutions</i>) taken by senior management in respect of proven cases of fraud or irregularity (<i>if cost effective</i>).</p>
<p>Areas of Increased Risk of Fraud (<i>reviewed and updated continuously throughout the year, e.g. National Fraud Strategy</i>).</p>	
<p>Specific internal audit reviews (<i>internal controls</i>) and/or directed counter fraud work (<i>the “tell tale” signs of a potential fraud</i>):</p> <ul style="list-style-type: none"> Personal budgets, direct payments and brokerage (adult care) Procurement Payroll/expenses fraud Recruitment fraud (<i>including Right to Work</i>) Cash transactions Ghost employees/carers. 	<p>Issue of formal Internal Audit reports, incorporating recommendations for management action and/or practice and process changes.</p>
<p>Internal Audit Service</p>	
<p>Programme of internal audit reviews and counter fraud work included in Annual Audit Assurance Plan 2013-14, e.g. Annual fraud transaction checks.</p>	<p>Adequate assurance provided (<i>Annual Assurance Statement</i>).</p> <p>Senior management and the Audit Committee have timely and sufficient information about the implementation of the Counter Fraud Strategy 2013-15 and the Counter Fraud Action Plan 2013-14.</p>
<p>Attendance at meetings of the regional West of England Chief Internal Auditors Fraud Sub-Group.</p>	
<p>Active involvement in regional and national data capture and benchmarking exercises.</p>	
<p>Regular progress reports for senior management,</p>	

Counter Fraud Action Plan 2013-14

Action	Outcome
e.g. Statutory Officers, and the Audit Committee.	