

November 2014

Counter Fraud Report 2014/15



Contents

Section	Page
1. Introduction	3
2. Background.....	3
3. Investigative Work 2014/15.....	5
4. Proactive Work 2014/15.....	5
5. Conclusion and Next Steps.....	6
6. Appendix 1: Checklist for councillors and others responsible for governance	7
7. Appendix 2: Fraud Response Plan	10
8. Appendix 3: Counter Fraud Plan 2015/16	13

1. Introduction

- 1.1. The purpose of this report is to:
- Review the delivery of counter fraud work during 2014/15
 - Provide information on the overall effectiveness of the Council's arrangements to counter fraud and corruption.

2. Background

- 2.1. In administering its responsibilities, Worcestershire County Council takes a zero tolerance stance against fraud, corruption and theft, both from within the Council and from external sources. The Council is committed to an effective anti-fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities.
- 2.2. The Audit Commission in their publications Protecting the Public Purse (PPP) have encouraged all Local Authorities to align their counter fraud response to the 'Fighting Fraud Locally' strategy – this is something we started to work to from 2012/13 onwards, though we recognise that there is further scope to develop our counter fraud arrangements around the three key strands: *acknowledge, prevention and pursue*.
- 2.3. CIPFA have now taken over responsibility for the national 'Fighting Fraud Locally' Strategy and are in the process of carrying out research for the next phase which will kick in from 2015.
- 2.4. The National Fraud Authority (NFA) was set up following the government's *Fraud Review* (2006). The NFA published Annual Fraud Indicators which provided one of the most comprehensive and reliable estimates of the fraud exposure across all sectors in the UK. The figures for 2013 are as follows:
- Procurement (including contract fraud) - £876m
 - Payroll - £154m
 - Blue Badge Scheme misuse - £46m
 - Grants - £35m
 - Pensions - £7
- 2.5. The Audit Commission have just issued their last report in the Protecting the Public Purse series before they close in March 2014. It draws upon the learning from the commissions 25 year experience in counter fraud in Local Government.
- 2.6. In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, their value increased by 6%.
- 2.7. The Audit Commission have made a number of recommendations relevant to Local Government :
- 2.8. All local government bodies should:
- Use our checklist for councillors and others responsible for audit and governance (Appendix 1) to review their counter-fraud arrangements

- Adopt a corporate approach to fighting fraud, to ensure they fulfil their stewardship role and protect the public purse from fraud
 - Actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI)
 - Assess themselves against the framework in CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption, and
 - Engage fully with the new CIPFA Counter Fraud Centre.
- 2.9. Councils in particular should:
- Protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud
 - Be alert to the risk of organised crime, notably in procurement
 - Be alert to the risks of fraud, particularly in growing risk areas such as Right to Buy and social care;
 - Apply the lessons from the approach encouraged by PPP to tackle housing tenancy fraud, to other types of fraud
 - Focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources
 - Focus more on recovering losses from fraud, using legislation such as the Proceeds of Crime Act, and
 - Take up the Commission's offer of receiving a fraud briefing to help them benchmark their performance and promote greater transparency and accountability.
- 2.10. Following the abolition of the NFA in March 2014, the new CIPFA Counter Fraud Centre (CCFC), which launched in July 2014, will lead the new national strategy for Fighting Fraud Locally (FFL) and will be a bank of best practice and thought leadership. A new FFL report is expected later in 2014.
- 2.11. A code of practice on managing the risk of fraud and corruption has recently been introduced by CIPFA. It is a voluntary code that can be applied in any public service organisation. With regard to the Council, the code encourages having strong governance and operational arrangements to counter fraud and corruption. There are five main principles:
- Acknowledge responsibility
 - Identify risks
 - Develop a strategy
 - Provide resources
 - Take action.
- 2.12. The Code also makes it clear that leaders of the Council have a responsibility to embed effective standards for countering fraud and corruption within the Council. Part of this process includes a statement in the annual governance report regarding adherence to the code.
- 2.13. Internal Audit reviewed during 2013 the Council's Anti-Fraud and Corruption Strategy, Anti-Money Laundering Policy and the Whistle Blowing Policy and Procedure. We

recognise that these procedures will become increasingly important in identifying and reporting potential fraud in an environment of:

- The changes to service delivery e.g. commissioning of services
- Reduced staffing
- Changes to the control environment
- Greater local autonomy
- Changes to roles and responsibilities

3. Investigative Work 2014/15

- 3.1. The Council does not appear to have a significant number of irregularities. However, the size and complexity of the Council means that it is inevitable that there will be a small number of irregularities to be investigated; any significant issues are reported to the Audit and Governance Committee.
- 3.2. Internal Audit has been involved in two ongoing instances of missing cash. In both cases system weaknesses were identified with a requirement to improve controls.
- 3.3. Internal Audit has also investigated two whistleblowing allegations. The first investigation did not identify any concerns regarding fraud or corruption but did recommend improvements in procedures. The second investigation relates to an external contract and whether the funding is being used for its intended purpose. This investigation is still ongoing.
- 3.4. There has been a recent case of the Council receiving a letter, purported to be from one of our suppliers, asking for their bank account details to be changed, commonly known as a Bank Mandate fraud. Through the vigilance of the Accounts Payable Team and by following the procedures in place, they were able to confirm that the request was fraudulent. This incident has been reported to Action Fraud.

4. Proactive Work 2014/15

- 4.1. As stated above, Internal Audit has been involved in writing and reviewing a number of policies which form the basis of a policy framework which supports the implementation of an effective anti-fraud strategy.
- 4.2. Internal Audit recognise when compiling the annual plan the need to prevent fraud by ensuring that there are robust controls and procedures in place.
- 4.3. Internal Audit has also developed a Fraud Response Plan which describes the action individuals should take if they suspect fraud or corruption. This approach has been publicised as part of the awareness campaign detailed in 4.4. The Fraud Response Plan is included at Appendix 2.
- 4.4. A significant amount of pro-active work has taken place during the previous 12 months to raise awareness of fraud issues. Internal Audit arranged for a publicity campaign to raise awareness of fraud and corruption with staff and members. This included information and case studies on SID, posters, plasma screens and encouragement to participate in e-learning training. Information has also appeared on the member's portal.

- 4.5. As part of the above process a confidential fraud reporting hotline has been introduced to facilitate the reporting of fraud.
- 4.6. It is intended to refresh the information regarding posters, SID and e-learning to reinforce the message to existing staff and also raise awareness with new starters.
- 4.7. To ensure that our approach to fraud and corruption is properly considered a draft Internal Audit Counter Fraud Plan is included at Appendix 3.
- 4.8. To ensure that auditors are aware of current developments, Internal Audit staff have attended two recent fraud seminars:
 - KPMG Midlands Fraud Forum – Suspicion – practical approach to Suspicious Activity Reports
 - Barclays bank – Fraud Awareness, the Barclays view.
- 4.9. Both courses, delivered from a private sector perspective, provided a valuable insight into the challenges facing organisations regarding fraud.
- 4.10. The County's testing on the 2012/13 National Fraud Initiative (NFI) data matches identified just over £1,500 of overpayments.
- 4.11. We are in the process of developing data analytics to improve the detection of fraud, this includes training in the use of Fiscal, used originally to identify duplicate payments but now with a new module for proactive fraud investigations.
- 4.12. Internal Audit attends the Midland's County Fraud Group which meets twice a year to share best practice, specific issues, investigative intelligence and also potential training opportunities. Internal Audit is also a member of the Midlands Fraud forum which aims to promote awareness of fraud issues and promote best practice in countering fraud and educate everyone on effective fraud prevention measures.

5. Conclusion and Next Steps

- 5.1. The Council would appear to have a low level of detected fraud when compared with levels reported nationally. This may be in part due to the focus on having robust controls in place to deter fraud.
- 5.2. Nonetheless, it remains essential to continue to encourage a strong anti-fraud culture both through improving the awareness of staff, members and the public and also improving the way fraud is detected.
- 5.3. We aim to boost awareness throughout the remainder of 2014/15 and going forward with the introduction of the 2015/16 Counter Fraud Plan.
- 5.4. We will continue to review individual fraud risk areas and aim to increase awareness by working with the teams with the highest likely fraud risks such as procurement and direct payments.
- 5.5. It is also important to consider how the Internal Audit team can improve its resilience to investigate fraud going forward.

6. Appendix 1: Checklist for councillors and others responsible for governance

General	Yes	No	Previous action	2014 Update
<p>Do we have a zero tolerance policy towards fraud?</p> <p>Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i>?</p> <p>Do we have dedicated counter-fraud staff?</p> <p>Do counter-fraud staff review all the work of our organisation?</p> <p>Does a councillor have portfolio responsibility for fighting fraud across the council?</p> <p>Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?</p> <p>Have we received the latest Audit Commission fraud briefing presentation from our external auditor?</p> <p>Have we assessed our management of counter-fraud work against good practice?</p> <p>Do we raise awareness of fraud risks with:</p> <ul style="list-style-type: none"> ■ new staff (including agency staff); ■ existing staff; ■ elected members; and ■ our contractors? 				
II. Fighting fraud with reduced resources	Yes	No	Previous action	2014 Update
<p>Are we confident that we have sufficient counter-fraud capacity and capability to detect and prevent fraud, once SFIS has been fully implemented?</p> <p>Did we apply for a share of the £16 million challenge funding from DCLG to support councils in tackling non-benefit frauds after the SFIS is in place?</p> <p>If successful, are we using the money effectively?</p>				

III. Current risks and issues	Yes	No	Previous action	2014 Update
Housing tenancy				
Do we take proper action to ensure that we only allocate social housing to those who are eligible?				N/A To Worcestershire County Council
Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?				
Procurement				
Are we satisfied our procurement controls are working as intended?				
Have we reviewed our contract letting procedures in line with best practice?				
Recruitment				
Are we satisfied our recruitment procedures <ul style="list-style-type: none"> ■ prevent us employing people working under false identities; ■ confirm employment references effectively; ■ ensure applicants are eligible to work in the UK; and ■ require agencies supplying us with staff to undertake the checks that we require? 				
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?				
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 discount				
Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?				N/A to Worcestershire County Council
Housing benefit				
When we tackle housing benefit fraud do we make full use of: <ul style="list-style-type: none"> ■ National Fraud Initiative; ■ Department for Work and 				N/A to Worcestershire

Pensions Housing Benefit
matching service;
■ internal data matching; and
■ private sector data matching?

IV. Other fraud risks	Yes	No	Previous action	2014 Update
------------------------------	------------	-----------	------------------------	--------------------

Do we have appropriate and proportionate defences against the following fraud risks: ■ business rates; ■ Right to Buy ■ council tax reduction; ■ schools; and ■ grants?				
--	--	--	--	--

7. Appendix 2: Fraud Response Plan



FRAUD RESPONSE PLAN

INTRODUCTION

1. The Council has a **zero tolerance** to all forms of fraud, corruption and theft. This means we will apply the toughest sanctions where fraud is proven – disciplinary and criminal.
2. This Fraud Response Plan is part of the **Counter Fraud Policy** and our aim is to reduce fraud and loss to an absolute minimum and keep it there.
3. You should follow this response plan if you are a staff member, councillor, partner, contractor or Lincolnshire resident. We all have a responsibility to report any suspicion of fraud and to cooperate in any investigation, if necessary. If you work for the Council and fail to report your suspicions, you may be in breach of our Counter Fraud Policy and action may be taken against you or your organisation.
4. **Fraud** is a crime and involves a deception which is deliberate and intended to provide a direct or indirect personal gain – for example: false expenses, exaggerated pay claims, altering accounting records, bogus invoices, forged cheques, fixing tender results, contract irregularities etc.
5. **Corruption** is the deliberate misuse of your position for direct or indirect personal gain such as: offering, giving, requesting or accepting a bribe or reward which influences your actions or someone else's.
6. **Theft** is where someone steals cash or other property belonging to someone else with no intention of returning it.
7. This guidance only tells you what to do if you suspect fraud - for other concerns you should refer to: the Anti-fraud and Corruption Strategy or you can report fraud suspicions using the Council's Whistleblowing Policy.

WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

8. Immediately report your suspicions to:
 - your line manager (or more senior manager if you think they may be involved)

- the Internal Audit department – David Jenkins Senior Manager, Internal Audit & Assurance.
- the Council's Confidential Fraud Reporting Line on 01905 766570.

9. Top Tips

Don't	Do
Delay – report the matter quickly	Record your suspicions – write down what you have found, seen and heard
Approach or accuse individuals directly – you may alert them and evidence may be destroyed	Keep any evidence you have in a safe place.
Tell anybody else – you don't know who may be involved	Tell us who you are – we will want to talk to you as you may know more than you realise
Investigate yourself – you may spoil the evidence and prevent a criminal prosecution	Keep calm

SAFEGUARDS

10. **Harassment, bullying or victimisation** – if you have raised your concerns in good faith we will take action to prevent you from reprisal.
11. **Confidentiality** – if you feel it is necessary we will try to protect your identity – this will not be possible if the investigation leads to criminal action.
12. **Anonymous referrals** – we do not encourage these as it affects our ability to investigate, but we will always look into any case of suspected fraud.
13. **Malicious referrals** – if we find that your referral is malicious or has been made for personal gain, we will take action against you under the Council's Disciplinary Policy or relevant agreement if you work for one of our partners.

INVESTIGATION

14. All suspected fraud must be referred to Internal Audit.
15. Internal Audit will assess the initial information and decide how to proceed. This will include a strategy meeting with the relevant manager.
16. Following best practice guidelines, Internal Audit will investigate most cases of suspected fraud – management may investigate low level fraud involving an employee after consultation with Internal Audit.

POTENTIAL OUTCOMES

17. **Criminal Prosecution** – the Head of Corporate Audit and Risk Management on advice from CFIT will authorise the referral to the police for investigation.

18. **Disciplinary Action** – at the end of the investigation CFIT will produce an outcome report. If this involves an employee and fraud is proven, the likely outcome will be dismissal. If fraud is not proven there may still be matters which need to be considered under the Council's disciplinary procedures.
19. **Recovery through Civil or Criminal Proceedings** – we will seek to recover all losses subject to legal advice and where it is cost effective to do so. We will recover any loss caused by an employee through salary, pension or insurance.
20. **Weaknesses in the System of Controls** – we will produce an Action Plan to address any system or management weaknesses and to reduce the risk of fraud and error in the future.

8. Appendix 3: Counter Fraud Plan 2015/16

	Point of Focus	Indicative scope	Priority	No of Days	Quarter	Status
1.0	Culture					
1.1	Engagement and training	<p>Briefing sessions/training with members, officer and key partners.</p> <p>Targeting of key areas of fraud e.g. procurement.</p>	High			<p>Meetings to be held with staff in key areas e.g. procurement.</p> <p>Internal Audit is attending a Worcestershire schools' conference to give a presentation on fraud with a view to increasing awareness.</p>
1.2	Policy Framework	<p>The Council should have in place a policy framework which supports the implementation of an effective anti-fraud strategy.</p> <p>CIPFA's Code of Practice 'Managing the Risk of Fraud and Corruption' details the following as a minimum requirement:</p> <ul style="list-style-type: none"> • Counter fraud policy • Whistleblowing policy • Anti-money laundering policy • Anti-bribery policy • Anti-corruption policy • Gifts and hospitality policy and register 	High			<p>The Anti-Fraud and Corruption Strategy which includes reference to the Bribery Act, Whistleblowing Policy and Procedures and Anti-Money Laundering Procedure were revised by Internal Audit and approved as part of the Code of Corporate Governance by the Audit and Governance Committee.</p> <p>Other relevant documents are the Council's Code of Conduct which includes reference to gifts and hospitality and conflicts of interest.</p>

		<ul style="list-style-type: none"> • Pecuniary interest and conflicts of interest policies and register • Codes of conduct and ethics • Information security policy • Cyber security policy. 				
1.3	Awareness/publicity campaign	<p>Case studies on SID, posters, plasma screens and encouragement to participate in e-learning training.</p> <p>Information can also be made available on the Member's Portal.</p> <p>Above would provide an opportunity to publicise the Council's Anti-Fraud and Corruption Strategy, Whistle Blowing Policy and Money Laundering Policy.</p>	High			<p>A significant amount of pro-active work has taken place during the previous 12 months to raise awareness of fraud issues. Internal Audit arranged for a publicity campaign to raise awareness of fraud and corruption with staff and members. This included information and case studies on SID, posters, plasma screens and encouragement to participate in e-learning training. Information has also appeared on the member's portal.</p> <p>There is a requirement to continue with a clear programme of Counter Fraud publications using the support of the Communications team.</p>
2.0	Prevention					
2.1	Internal Audit work	Enhancing fraud control and processes	High			This forms an important part of the Internal Audit annual plan.
2.2	Advice	New systems and processes.	High			Internal Audit have been involved

		Advice around the commissioning process.				in advising on a number of new systems.
2.3	E-learning package	To raise staff awareness of fraud risks and the appropriate procedures to follow.	Medium			A number of officers have now completed the E-learning package. It is the intention to publicise the package further with a view to increasing awareness.
2.4	Staff induction process	To ensure that there is appropriate awareness of the Council's zero tolerance approach to fraud as part of the induction process. Using the Anti-Fraud and Corruption Strategy as a focal point the induction process should raise awareness of the Code of Conduct, declaration of interests and the means to report suspicion of misconduct or where to seek further advice. The above would link into the e-learning package (see 2.3).	Medium			It is the intention to pursue with HR.
2.5	Fraud Response plan	This provides a comprehensive reference point to facilitate staff on the course of action they should take if they have specific concerns.	Medium			The Fraud Response plan has been documented and linked into previous publicity campaigns. There is a requirement to publicise further.
3.0	Detection					
3.1	An annual Counter Fraud report and Annual fraud Programme to be presented to Audit and Governance Committee	The report and programme would show the success of the proposed approach and the requirement for any revisions.	High			Report to be presented to Audit and Governance Committee on 12 December 2014.

	to keep them informed of fraud related work.					
3.2	Update Fraud Risk Profile	Incorporating emerging risks, fraud surveys and local assessment. This would give an awareness of potential fraud risks along with consideration of how to approach them.	High			Ongoing.
3.3	Proactive Fraud exercises	More directive audits to be carried out in the main areas of fraud risk: <ul style="list-style-type: none"> • Procurement; • Direct payments. 	High			2015/16 Internal Audit plan.
3.4	Data Analytics	Further development/use of data analytics. Training in the use of Fiscal, used to identify duplicate payments currently with a new module for proactive fraud investigations now available.	High			A member of Internal Audit has been trained in the fraud module. It is intended to follow up on individual reports from December 2014.
3.5	National Fraud Initiative	Review and investigation of Council matches. Also a requirement to respond to requests from other public sector bodies.	High			The National Fraud Initiative (NFI), the Audit Commission's data matching exercise helps the Council fight against fraud. Internal Audit continues to act as the lead co-ordinator. Work has been completed to upload all of the necessary data to the Audit Commission's secure website on the 6 th October in respect of this year's NFI. This time there is a

						requirement for a new data set to be included, those service users in receipt of a direct payment, in addition to Payroll, Pension, Creditor, Care Home, Blue Badges and Concessionary Travel data. The data matches will be available to review from January 2015.
4.0	Investigation					
4.1	Fraud investigation	In line with CIPFA guidelines.	High			
4.2	Identify and recover losses	Identified during investigations. Recovery through Proceeds of Crime Act, insurance and legal action.	High			
5.0	Contingency					
5.1	Advice & liaison					
	Total days					