

Bath & North East Somerset Council

MEETING:	Corporate Audit Committee	
MEETING DATE:	3 rd December 2013	AGENDA ITEM NUMBER
TITLE:	Fraud & Corruption Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Audit & Risk Team Action Plan		
Appendix 2 – Council’s Anti-Fraud & Corruption Policy & Whistleblowing Policy		
Appendix 3 – Council’s Anti-Money Laundering Policy		

1 THE ISSUE

- 1.1 This report presents the findings of the Audit Commission’s latest ‘Protecting the Public Purse’ report, the need for the Council to be proactive in preventing / detecting fraudulent activity and the results of a biennial review of the Council’s Counter Fraud and Corruption arrangements. This includes the review of associated Policies and Procedures as well as assessing the impacts of Fraud and misuse of Council resources on the Authority and the views of external auditors.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to:
- a) Comment on the review carried out and actions proposed (Appendix 1).
 - b) Confirm that the Council’s Anti-Fraud & Corruption & Whistleblowing Policies (Appendix 2) and Anti-Money Laundering Policies (Appendix 3) remain appropriate.

3 FINANCIAL IMPLICATIONS

- 3.1 Fraud and Corruption can cost any organisation substantial sums of money if poorly managed, whilst there are no direct implications relevant to this report the impacts from implementing the actions proposed should hope to minimise any future risks.

4. THE REPORT

Introduction

- 4.1 In June 2013 the Council's S151 Officer submitted this Council's 2012/13 return to participate in the national Audit Commission's 'Protecting the Public Purse Fraud & Corruption Survey'.
- 4.2 The form recorded a number of reportable items including:
- 201 Housing Benefit (HB) & Council Tax Benefit (CTB) Fraud Cases (£97,686)
 - 128 Council Tax (CT) Fraud cases (£49,660) – Single Person discounts.
 - 7 Housing Benefit Prosecutions
 - All relevant anti-fraud & corruption policies in place
- 4.3 On 14th November 2013 the Audit Commission published its 2013 report "Protecting the Public Purse –Fighting Fraud against Local Government". The key headlines from the report were:
- Local Government bodies detected 107,000 cases, valued at £178m, down by 14% and 1% compared with 2011/12.
 - HB and CTB fraud accounted for 66% of the total fraud loss (£120m) up 3%.
 - Council Tax discount fraud reduced by 7% to £19.6m.
 - Housing Tenancy Fraud – properties recovered increased by 51% (2,642 homes in 2012/13).
 - London Boroughs reported detected fraud increased by 36% in numbers and value.
 - Most non London regions showed a decline in detected fraud (between 6 & 46%). For the South West it reduced by 19%.
 - 76% of all non-benefit fraud is detected by 25% of Councils.
 - Council's should maintain their capacity to investigate non-benefit fraud and focus more effort on detecting non-benefit fraud.
 - Councillors should encourage their Council to focus more on deterrence, by widely publicising action against fraudsters and increase confidence in whistleblowing arrangements by providing corporate leadership of and support for whistle-blowers.
- 4.4 Outside of CT, CTB, HB and Housing Tenancy fraud the other significant areas of reported fraud were:

Fraud Type	Value	% increase / decrease
Business Rates	£7.2m	+177%
Right to Buy	£5.9m	+392%
Abuse of Position	£4.5m	-20%
Social Care	£4.0m	+82%
Payroll, Pension, Expenses	£3.0m	-14%
False Insurance Claims	£3.0m	+43%
Procurement	£1.9m	-77%
Disabled Parking	£1.5m	-38%

- 4.5 There were a number of areas where there were significant increases in reported fraud. For these areas the type of fraud included:

- 1) Business Rates - falsely claiming rate relief or empty home exemption.
- failure to declare occupancy of a property.
- falsely claiming insolvency status.
- not disclosing relevant info, e.g. size of company, to gain rate Relief
- 2) Right to Buy - occupier unlawfully applies for a discount.
- legitimate tenant provides false information on application.
Note: the number of actual cases is low at 102 for 2012/13 but compared to 38 in 2011/12 it's a large percentage increase.
- 3) Social Care - diverting direct payments for fraudsters use.
- continuing to claim direct payments after death of client.
- 4) Insurance Claims - submission of fraudulent claims. The number of cases detected has continued to drop but the value of each case has increased. The position in 2012/13 roughly equals the position reported by Council's in 2009/10.

4.6 Abuse of Position detected / reported fraud has reduced by 20% over a year. This 'internal fraud' only accounts for 1% of the total cases reported but it's 9% of the value (£16.5m). This fraud type will be a subject of a presentation to Committee members.

4.7 Historically within local government internal fraud / corruption has resulted in a break down in the framework of internal control, for example:

- Inadequate record keeping (both incomplete & non-existing)
- Inadequate Management Supervision
- Conflicts of interest
- Management competency
- Non-compliance with Council Policies & agreed procedures
- Collusion between officers
- Inadequate segregation of duties – income and expenditure

4.8 The latest Audit Commission Protecting the Public Purse report reiterates the need for Council's to review their counter-fraud arrangements. The Audit & Risk team complete a desk top review of the Council's counter-fraud arrangements. **Appendix 1** records the current Fraud Action Plan. This has been compiled taking into account the current and previous Counter Fraud reviews.

4.9 Our review considered the following:

- (a) **Policies:** Consider the adequacy of the existing policies and update as necessary:
 - 1) Anti-Fraud & Corruption Policy
 - 2) Whistleblowing Policy
 - 3) Anti-Money Laundering Policy
- (b) **Culture & Awareness:** Review the Council's culture and awareness of its approach to tackling Fraud and Corruption.

- (c) **Audit & Risk Team 'Planned' & 'Responsive' Work:** Actual work carried out as per the adopted Audit Plan and 'unplanned' work responding to reports of financial irregularities / poor practice.
- (d) **National Fraud Initiative:** Review results of the National Fraud Initiative exercise run nationally by the Audit Commission.
- (f) **Compliance with new legislation and / or national best practice.**

Policies:

4.10 Alongside the employees Code of Conduct and General Employment Standards and Rules, the Council currently has 3 key policies directly linked to anti-fraud and corruption, these are:

- 1) Anti-Fraud & Corruption Policy (including the Fraud Response Plan) (**Appendix 2**) – this sets out roles and responsibilities and how the Council will respond to any suspected Fraud.
- 2) Whistleblowing Policy (**Appendix 2**) – this was put in place in response to the Public Interest Disclosure Act 1998 and details how the Council will support and respond to 'Whistle-blowers'.
- 3) Anti-Money Laundering Policy (**Appendix 3**) - is to meet the obligations placed on the Council arising from the Money Laundering Regulations 2007, Proceeds of Crime Act 2002 and the Terrorism Act 2000. The Council is not in the "Regulated Sector" but a Council Anti-Money Laundering Policy has been adopted.

4.8 The review found the Policies to be sound in terms of content, and amendments were limited to reference to new organisations, e.g. the National Crime Agency taking over from the Serious and Organised Crime Agency or changes resulting from organisational structure changes.

Culture & Awareness:

4.9 A strong anti-fraud Culture is key to preventing and detecting fraudulent / corrupt activity. Critical to the development / maintenance of this culture is clear / strong leadership, an awareness of policies and procedures and an understanding that robust action will be taken when wrongdoing is identified and proved.

4.10 The first Organisational Values Survey was completed in 2009. All 1st, 2nd & 3rd tier officers were asked for their feedback about the leadership values (enshrined in the Council's Code of Corporate Governance) and whether these were being lived and to obtain opinions on the Council's ethical framework.

4.11 The latest survey results were very positive. A 'green' status was recorded against 'Ethics' (honesty, openness, trust, enjoyment, professionalism, pragmatism, excellence) linked to the 'Integrity' Value. It was interesting to note that 87% of responders 'agreed' to the following statement: "The organisation has made clear its commitment to fight fraud and corruption". The Audit & Risk Team have continued since the last survey was carried out to keep all staff informed of the Council's

adopted zero tolerance to fraud and corruption. We will continue to work closely with other colleagues in the Council to effectively communicate the Council's commitment and this includes when-ever possible publicising cases where action has been taken against individuals.

- 4.12 As part of developing an anti-fraud & corruption culture within the Council and promoting awareness, the Audit & Risk Team liaise with others to prepare and issue a quarterly Fraud Bulletin. Both the Council's Benefits Investigation Team and the Trading Standards Team have provided articles for the Bulletin.
- 4.13 The purpose of the Bulletin is to promote fraud awareness by communicating information on known fraudulent activity. Cases reported may be examples where the Council, Schools and other organisations have been targeted by fraudsters or are frauds / scams.
- 4.14 The latest version of the Fraud Bulletin was issued in September 2013 and is available via the intranet. It included an introduction by the Chair of the Corporate Audit Committee, promoting a strong counter fraud culture. Its availability was publicised using the Council's 'Staff Matters' electronic newsletter. In addition a copy was sent to all B&NES and Academy Schools via e-mail.
- 4.15 Whistleblowing posters are on display in Council buildings. It is clear from recent whistleblowing cases that 'whistle-blowers' have acted based on seeing posters in Council buildings.

Audit & Risk Team 'Planned' & 'Responsive' Work

- 4.16 All planned work by the Audit & Risk Team considers 'safeguarding the council's assets'. Whilst all audit reviews consider the risks of fraud and corruption, specific reviews have been designed to focus solely on these risks.
- 4.17 The 2013/14 annual audit plan includes four reviews amounting to 100 days on NFI, Bribery, Income and Expenditure, to verify that systems of internal control are operating effectively and that any actual or attempted fraudulent activity is either prevented or identified and properly managed.
- 4.17 The Council's Financial Regulations places a duty on all staff to report suspected cases of financial irregularity. In addition, senior management are required to report financial irregularities to the Audit & Risk Team who act on behalf of the Director of Resources. The Audit & Risk Team respond promptly to all reported cases. The investigation of such cases can take considerable time and resources.
- 4.18 During 2012/13 and currently in 2013/14 a total of 12 investigations have been carried out over potential irregularities. Whilst not every case can be proven categorically, poor or fraudulent practice has been brought to an end and this has led to potential savings of over £100K over a range of different areas.
- 4.18 The experience and knowledge of the Audit & Risk Team is used to assist in any investigation required. This is primarily around investigating the internal control breakdown(s) so any weaknesses / risks are identified and actions are taken to manage them. In addition, the team may lead or assist with the related staff disciplinary process.

4.19 We continue to liaise and network with other Local Authorities through the West of England Chief Internal Auditors' network (covering Local Authority Audit Teams from Swindon down to Cornwall). In particular, the West of England Fraud Sub-Group is a very active group, exchanging information, providing an excellent source of expertise and knowledge, with group members sharing best practice.

National Fraud Initiative:

4.20 The National Fraud Initiative is an exercise led and co-ordinated by the Audit Commission and is statutory for all Local Authorities. Data is provided mainly by Local Authorities and Government Departments, The data the Council provides is principally used for cross-matching between systems and organisations to identify possible incidences of fraud or overpayment. Data sets (see 4.21 below) are matched every two years.

4.21 The data provided by the Council for the data matching exercises include Creditors, Payroll, Pensions, Concessionary Bus Travel, Resident Parking Permits, Residential Care, Blue Badges, Council Tax (Single Person Discount), Electoral Register, Market Traders, Taxi Drivers, and Personal Alcohol Licences (Note: Council Tax & Electoral Register are matched on a different two year cycle).

4.22 The role of Audit & Risk is to lead on the co-ordination of the exercise, liaise with Services (investigating data matches) and the Audit Commission to monitor and report on investigation outcomes. The Council investigates matches from the following data sets: Creditors, Housing Benefits, Payroll, Pensions, Concessionary Bus Travel, Resident Parking Permits, Residential Care, Blue Badges, Insurance, Council Tax (Single Person Discount) and Electoral Register.

4.23 On a national level the Audit Commission reports the data matching and investigation exercise identifies significant fraud. For the 2010/11 exercise, this was reported as totalling £275 million. Despite, these large national figures being reported, historically this Council has identified very little fraud and overpayments.

NFI Year	Data Matches reported	Value of Fraud & Overpayments identified
2004/05	3,875	£13,642
2006/07	39,344 *(1)	£73,816 *(2)
2008/09	8,668	£11,500 *(3)
2009/10 (Council Tax & Electoral Register Data Matching)	1,237 (1,003 C/Tax to E/ Register; C/Tax rising 18 234)	£15,876.09 (19% of total from NFI /Experian data matching exercise - 2010/11 £82,568).
2010/11	7,926 *(4)	£4,857.50 *(5)
2011/12 (Council Tax & Electoral Register Data Matching)	1,266	£49,660 *(6)
2012/13	6,626 *(7)	On-going - None identified to date

- *(1) over 30,000 related to Creditor Payment matches

- *(2) approx.. £73,000 was in respect of Pension overpayments (abatements)
- *(3) All in respect of Housing Benefits
- *(4) 324 Cancelled Blue Badges (3.7% of total); 958 Cancelled Concessionary Travel Passes (3% of total). Holders had died (as notified by Department Works & Pensions).
- *(5) Pension overpayments (deceased pensioners).
- *(6) 128 council tax accounts had Single Person Discount (SPD) removed. The review of NFI matches was included in a review of data matches produced by a separate 'Experian' data matching exercise.
- *(7) Processed 2,141 matches to date (a date isn't specified by the Audit Commission for completion of the investigation of reported matches). Officers in Pensions, Transportation (Concessionary Travel), Benefit Investigations, Insurance and Parking have assisted the Audit & Risk Team in the investigation of matches.

Compliance with new legislation and / or national best practice

- 4.24 The last piece of new legislation was the Bribery Act 2010 and a briefing of requirements is recorded as Appendix 3 to the Anti-Fraud & Corruption Policy. It is an offence to offer, promise or give a bribe (Section1) and / or to request, agree to receive, or accept a bribe (Section 2).
- 4.25 During the 2011/12 Annual Governance Review, it was identified that the system for recording interests and the offer or giving of gifts and hospitality and obtaining the necessary approval needed to be improved. This resulted in a new on-line system being developed. This new system was approved by the Council's Monitoring and S151 Officers enabling the system to go live w.e.f. the 1st April 2013. Two separate registers are now maintained and these will be subject to at least annual review.
- 4.26 In April 2012 the National Fraud Authority (NFA) Local Government Fraud Strategy 'Fighting Fraud Locally' was published. The Audit & Risk Team have reviewed our counter-fraud arrangements in the context of this Strategy document and we will continue to monitor initiatives launched by the NFA to maintain our knowledge of different fraud types and ways of managing risks of fraud.

5. RISK MANAGEMENT

- 5.1 The risks in relation to fraud and corruption are significant as detailed in Section 3 above. The purpose of this report is to highlight the risks to the Council and to provide assurance to the Committee that action is being taken to prevent, detect and investigate wrongdoing and that the Council has a plan to maintain the momentum in combatting fraud and corruption to protect Council's resources and its reputation.

6. EQUALITIES

- 6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report to the Committee.

7. CONSULTATION

- 7.1 The report was distributed to the S151 Officer and Monitoring Officer for consultation.

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Background papers	
Please contact the report author if you need to access this report in an alternative format	