

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

28 SEPTEMBER 2011

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| SUBJECT: | FRAUD PREVENTION |
| WARD/S AFFECTED: | ALL |
| REPORT OF: | DIRECTOR OF FINANCE |
| RESPONSIBLE PORTFOLIO HOLDER: | COUNCILLOR ADRIAN JONES |
| KEY DECISION? | NO |

1.0. EXECUTIVE SUMMARY

- 1.1. Corporate fraud is a crime that is increasing in both the public and private sectors. In Local Government it is becoming more complex as a result of business transformation and the extended use of partnerships, outsourcing and new technologies.
- 1.2. This report covers fraud prevention in the Council and identifies the roles of the various teams in pursuit of this aim.

2.0. RECOMMENDATION

- 2.1. That the report be noted.

3.0. REASONS FOR RECOMMENDATION

- 3.1. To ensure Members are aware of actions being taken to prevent fraud.
- 3.2. Cabinet on 14 April 2011 requested this report on fraud prevention which was presented to Cabinet on 21 July 2011.

4.0. BACKGROUND AND KEY ISSUES

4.1. Internal Audit

- 4.1.1. In compliance with the Accounts and Audit Regulations and operating to standards set out in the CIPFA Code of Practice for Internal Audit in Local Government, the Internal Audit Section gives assurance on the adequacy of internal controls operating across the Council and provides advice to management where control weaknesses are identified. This fundamental role of Internal Audit serves to counter fraud in a general sense. Work undertaken is directly concerned with targeting fraud and ensuring that the Council is in the best possible position to deter would be fraudsters.

- 4.1.2 One such targeted exercise was a review of counter fraud arrangements across the Council. This review was undertaken in line with the CIPFA publication, 'Managing the Risk of Fraud-Actions to Counter Fraud and Corruption' which was published in October 2008, produced by the CIPFA Better Governance Forum Counter Fraud Advisory Panel. It is aligned to the National Fraud Strategic Authority and NHS Performance Indicators, and is recommended by organisations such as ALARM and the Institute of Internal Auditors.
- 4.1.3 The review resulted in the production of a report and action plan. An update report in respect of the review findings was presented to the Audit and Risk Management Committee on 18 January 2010. The report recognised the value of the Council having Codes of Practice for Members and employees and corporate policies on Whistle-blowing, Anti-Fraud and Corruption, Money Laundering, Benefits Investigations, Pre-employment Screening and Gifts and Hospitality. Areas of good practice were also recognised in areas such as Insurance claim processing, Housing Benefit Fraud Investigations, and participation in the National Fraud Initiative.
- 4.1.4 The review did however identify a number of improvements which could be made to the counter fraud arrangements and as a consequence a remit for a specialist Internal Audit Counter Fraud Team was drawn up to implement these changes.
- 4.1.5 The Counter Fraud Team co-ordinates all fraud related matters and acts as the first point of contact for all such matters for officers within the Council and external agencies such as the Audit Commission. The role as co-ordinator of fraud related matters enables the Team to monitor fraudulent acts and identify trends and possible emerging control weaknesses and communicate these promptly to all employees, for example through issuing warnings on the Intranet.
- 4.1.6 The Internal Audit Counter Fraud Team has been instrumental in the updating or introduction of key policies aimed at fighting fraud. For example:
- the Anti-Fraud Policy has been redrafted to reflect a zero tolerance to fraud and a commitment to reducing losses: This was approved by the Cabinet on 15 April 2010
 - the Anti-Money Laundering Policy has been updated and approved by the Cabinet on 2 June 2011. Understanding of money laundering by key frontline employees has been tested and specialist training is planned for those needing further instruction
 - An Anti-Bribery Policy has been prepared in line with CIPFA guidelines and approved by the Cabinet on 2 June 2011. It has been promoted to all employees through the Council intranet.

4.1.7 That part of the Internal Audit plan which refers to fraud includes tasks to cover:-

- **Creating a counter fraud culture,**
- **Preventing Fraud and**
- **Detecting Fraud.**

Examples of tasks include the development and delivery of Staff Fraud Awareness Training (summer 2011); pro-active fraud detection work utilising specialist interrogation software and the audit of systems traditionally vulnerable to potential fraud (expenses, credit cards, mobile telephones, advertising hoardings.) A corporate fraud hotline has recently been set up and this will be promoted through the intranet, the One Brief, One Council magazine and online training.

4.1.8 The Counter Fraud Team also has a key role in investigating large value or complex frauds and providing advice to other Investigating Officers involved in disciplinary investigations. Two of the Counter Fraud Team have successfully completed the CIPFA Certificate in Investigation Practice. As a result, investigations undertaken and advice given comply with best practice as set out in European and UK legislation and adopt professional advanced interviewing techniques. This professionalism provides for the best possible outcome for the Council, should any case end up in court.

4.1.9 The fraud threat is ever changing and the restructuring of Council departments provides opportunities for controls to be weakened or key roles to disappear. To address this possibility the counter fraud arrangements will be reviewed during 2011/12 using the 'Fraud Risk Evaluation Diagnostic' (FRED) which builds on the successful Red Book and puts it into an electronic format. FRED presents opportunities to compare Wirral procedures against best practice in other Local Authorities.

4.2 National Fraud Initiative

4.2.1. The Audit Commission requires all local authorities to participate in the biennial National Fraud Initiative (NFI), which is a national exercise which uses computer assisted audit techniques, and specifically data matching, to identify potential fraud. The NFI has identified a significant number of matches (20,325 in 2008 and 23,832 to date for the 2010 exercise) which must then be investigated by officers of the Council.

4.2.2. NFI exercises have resulted in significant savings to the Council, arising largely from payments recovered or stopped where the Council had made payments in error. After the investigation of the matches the 2008 exercise resulted in the identification of 84 frauds and 547 errors with a total value of £328,963. As the key contact within the Council the Deputy Chief Internal Auditor plays a vital role in managing the NFI exercise, liaising with contacts across the Council both before the submission of data and during the investigation of data matches. By maintaining contact with responsible officers across the Council, the Deputy Chief Internal Auditor is able to monitor progress in investigating potential frauds which informs regular updates to the Finance Department Management Team. This ensures that those responsible for investigating data matches have an incentive to act.

4.2.3 While the NFI exercise has proved valuable it does reflect only a snapshot of matches at a given point in time, albeit across a broader range of match data than would be available to the Council through any other means. Additional in house initiatives seek to extend the interrogation of data, in an attempt to detect fraud, to include more frequent “snapshots” Such initiatives include the use of IDEA software by Internal Audit to interrogate financial and other databases and in house data matching exercises in the Housing Benefit Fraud Team. In 2010 an internal audit data matching exercise resulted in the identification of £ 30,000 of duplicate payments for the Council to reclaim. There were 36 HB cases identified through internal proactive exercises which included the matching of Housing Benefit data to other data held by the Council.

4.3 Risk Management and Fraud Prevention

4.3.1 The Risk and Insurance Team review all risk registers created in respect of departmental plans. All risks are considered in relation to their effect on the Council objectives. Fraud is primarily considered to be an operational risk, whose impact is for the most part financial (i.e. it results in a loss of financial resources). The Team attempts to encourage Council departments to consider risk in a broad, but structured, way. One of the tools used is the guidance which is produced and distributed in relation to the identification, analysis and recording of risks to the delivery of departmental and divisional plans. The guidance contains a number of Risk Categories which are designed to give structure to the identification process. These are also contained in the Corporate Risk Management Strategy. Each category gives examples of the type of risk which would fall into it. Fraud is specifically mentioned. The Risk Management Team meets regularly with the Corporate Planning, Engagement and Communication Team to discuss potential improvements to the risk management framework. There are a number of points arising from the most recent set of departmental plans which include the need to maintain a focus on operational risks such as fraud.

4.4 Insurance Fraud Prevention

4.4.1 The zero tolerance to insurance fraud is promoted through pamphlets which encourage members of the public to report any suspicions about Insurance Fraud through the Insurance Fraud Hotline. Participation is encouraged through the offering of a reward for information leading to a conviction. The hotline has resulted in a number of reports since its introduction.

4.4.2 Use of the Claims Underwriters Exchange (CUEpi) by Wirral’s partner agencies (solicitors and insurers) also maximises the probability that any attempt to make a fraudulent insurance claim against the Council is picked up at the earliest possible stage.

4.5. Housing Benefits

- 4.5.1. Housing Benefits claims administration is prescribed by legislation and robust evidence and information verification procedures exist to secure the gateway to Benefit and minimise the opportunity for fraud and error. Working procedures are based upon the Department for Work and Pensions (DWP) 'verification framework' which helps to ensure that we are paying the right benefit to the right people. We also operate a review programme based on risk, concentrating on the groups which, through analysis, are most likely to have an incorrect benefit entitlement. This process includes direct access to the DWP Customer Information System (CIS). Claims are not put into payment until the framework requirements are satisfied. The quality assurance process requires that a sample of claims is checked with the outcome submitted on a quarterly basis to the DWP – Wirral's accuracy rate is currently 96%. Risk based intervention or reviews can be either postal or through a visit to the claimants home. If a claimant does not co-operate with a review the claim is suspended.
- 4.5.2 A significant number of Housing Benefit(HB) fraud referrals are received by the HB Fraud Investigation Team. Over the past four years the number has consistently been in excess of 1500 ranging from 1594 in 2007/08 and peaking at 2178 in 2009/10. In 2010/11 the number of referrals was 1859. There is a dedicated investigation team which conducts joint working as necessary with other agencies such as DWP. The work is both proactive and reactive: Proactive is essentially intelligence work i.e. action prompted through data matches such as NFI/HBMS (Housing Benefit Matching Service) and local initiatives. Reactive is in response to allegations of fraud, fraud referrals whether raised internally or externally, or anonymously by way of the fraud hotline or via e-mail. In 2010/11, 64 referrals were received via the fraud hotline and 31 via e-mail.
- 4.5.3 Other proactive measures to maximise the detection of Housing Benefit frauds include annual HB fraud awareness training for all Revenues Benefits and Customer Services staff and the dissemination of useful information in relation to fraud alerts via the weekly internal bulletin. The Division also has an agreed protocol for the sharing of information with Merseyside Police. Data analysis of case load, demographics and potential hotspots is also undertaken every two years as a means of identifying potentially fraudulent claimants.
- 4.5.4 Where fraud is identified the options are that the claimant be prosecuted, receive an administrative penalty (under which the claimant pays 30% of the total amount overpaid on top of repaying the amount over claimed), or receive a formal caution. Between 2002/03 and 2010/11 the investigation of fraudulent Housing Benefit claims resulted in 161 prosecutions, the issuing of 465 cautions and 247 administrative penalties.

4.6 Council Tax

4.6.1 The National Fraud Initiative provides leads about potential Council Tax fraud which are then investigated by the Council Tax Section. The current exercise which looks at Single Person Discounts has identified 97 frauds and 425 errors to date with a total value of £91,500

4.6.2 An additional in house exercise was undertaken prior to the latest NFI exercise. The in-house exercise resulted in a large reduction in Single Person Discounts from 57,606 to 54,910 a reduction of 2,696 producing savings of £767,000.

4.6.3 The Council Tax Section is constantly evaluating new methods of Single Person Discount verification.

5.0. RELEVANT RISKS

5.1. The Council is not adequately protected against corporate fraud and corruption.

6.0. OTHER OPTIONS CONSIDERED

6.1. No other options considered.

7.0. CONSULTATION

7.1. Relevant Sections of the Finance Department have been consulted in preparing this report.

8.0. IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1. There are none arising from this report.

9.0. RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1. There are none arising from this report.

10.0 LEGAL IMPLICATIONS

10.1. There are none arising from this report.

11.0. EQUALITIES IMPLICATIONS

11.1. There are none arising from this report.

12.0. CARBON REDUCTION IMPLICATIONS

12.1. There are none arising from this report.

13.0. PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1. There are none arising from this report.

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APPENDICES

None

REFERENCE MATERIAL

CIPFA/SOLACE Delivering Good Governance in Local Government Framework
CIPFA Managing the Risk of Fraud – Actions to Counter Fraud and Corruption
CIPFA 'Fraud Risk Evaluation Diagnostic'
Audit Commission 'Protecting the Public Purse'

SUBJECT HISTORY (last 3 years)

| Council Meeting | Dates |
|---|-----------------|
| Cabinet (Anti-Money Laundering Policy) | 22 May 2008 |
| Cabinet (Anti Fraud and Corruption Policy) | 15 April 2010 |
| Audit and Risk Management Committee (Protecting the Public Purse) | 17 January 2011 |
| Cabinet (Bribery Act and Anti-Money Laundering Policy) | 2 June 2011 |
| Cabinet (Fraud Prevention) | 21 July 2011 |